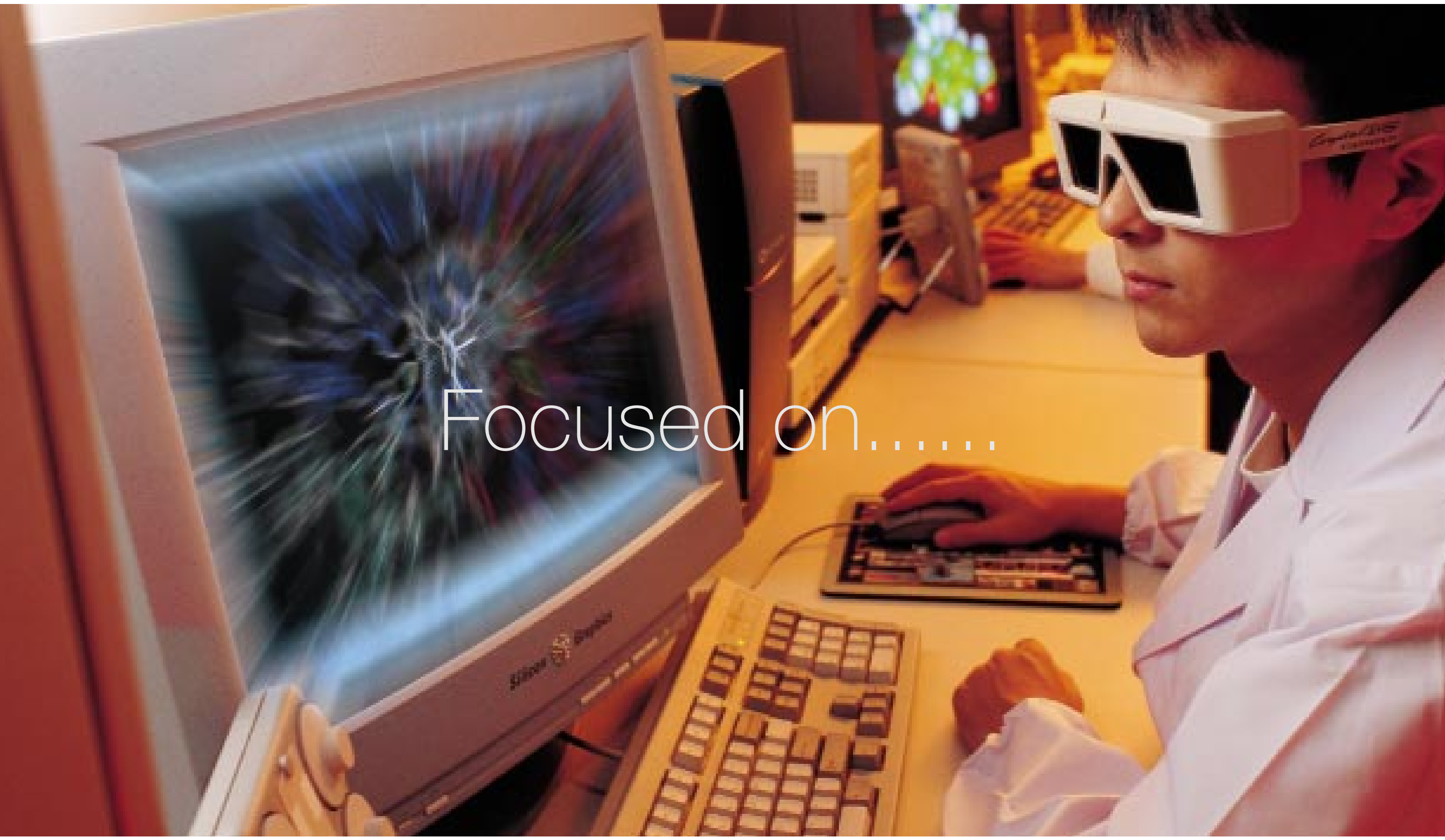
KYOWA



KYOWA HAKKO

Annual Report 2001

Year ended March 31, 2001

Kyowa Hakko Kogyo Co., Ltd., a research-oriented company focused on biotechnology, is striving to create new value in the field of life science, centering on pharmaceuticals, to contribute to the health and well-being of people worldwide.

On its establishment in 1949, Kyowa Hakko engaged in the mass production of streptomycin, contributing to the eradication of tuberculosis in Japan. The Company has since developed numerous drugs, including anticancer agent Mytomycin C, which is sold worldwide today as an essential chemotherapeutic agent. In addition to anticancer agents, Kyowa Hakko carries out the R&D, production, and sale of pharmaceuticals that address a wide variety of needs, including agents to treat hypertension, allergies, and neurological disorders. Kyowa Hakko's Pharmaceuticals operations have grown into the core business of the Company, while its expertise in fermentation technologies has maintained its strength in raw alcohol production and supported the development of Kyowa Hakko's Liquor and Alcohol operations.

Through the use of biotechnology, the Company has succeeded in the mass production of various types of amino and nucleic acids, including glutamic acid and lysine. These technologies are being applied in other areas of Kyowa Hakko's business with a focus on the Company's Food and Bio-Chemicals operations.

In its Chemicals business, which grew out of the Company's original acetone and butyl alcohol fermentation operations, Kyowa Hakko has shifted the emphasis from fermentation to synthesis. A world leader in the production of oxo alcohol, Kyowa Hakko is also a manufacturer of raw materials for plasticizers, solvents, and specialty chemicals for environmental protection.

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Winning

Financial Highlights

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries March 31, 2001 and 2000 and 1999

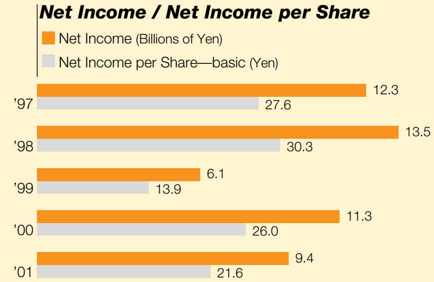
	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	**2001**
For the Year:				
Net sales	**¥375,610**	¥374,910	¥384,671	**$3,031,558**
Operating income	**17,712**	21,656	23,457	**142,954**
Net income	**9,395**	11,274	6,143	**75,827**
Capital expenditures	**17,092**	21,053	24,408	**137,950**
Depreciation	**18,502**	19,153	17,673	**149,330**
R&D expenses	**28,921**	25,888	24,083	**233,422**
At Year-End:				
Total assets	**431,411**	433,958	477,729	**3,481,929**
Interest-bearing debt	**87,624**	102,870	151,489	**707,215**
Total shareholders' equity	**194,693**	195,039	185,766	**1,571,372**
	Yen			U.S. Dollars (Note 1)
Per Share Data:				
Net income—basic (Note 2)	**¥ 21.6**	¥ 26.0	¥ 13.9	**$0.174**
Total shareholders' equity	**448.3**	449.1	427.8	**3.618**
Cash dividends	**7.5**	10.0	7.5	**0.061**
	%			
Ratios:				
Return on assets	**2.17**	2.47	1.34	
Return on equity	**4.82**	5.92	3.28	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥123.90=US$1, the approximate exchange rate at March 31, 2001.
2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.

Net Sales

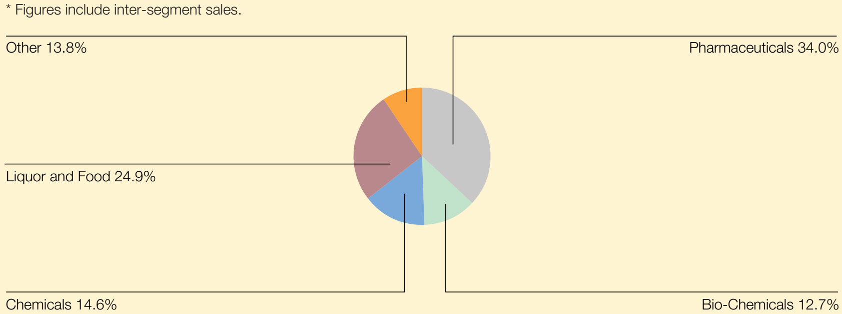
(Billions of Yen)

Net Income / Net Income per Share

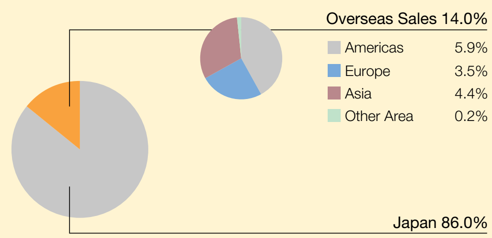


Sales Composition by Industry Segment*

* Figures include inter-segment sales.



Sales Composition by Geographic Area

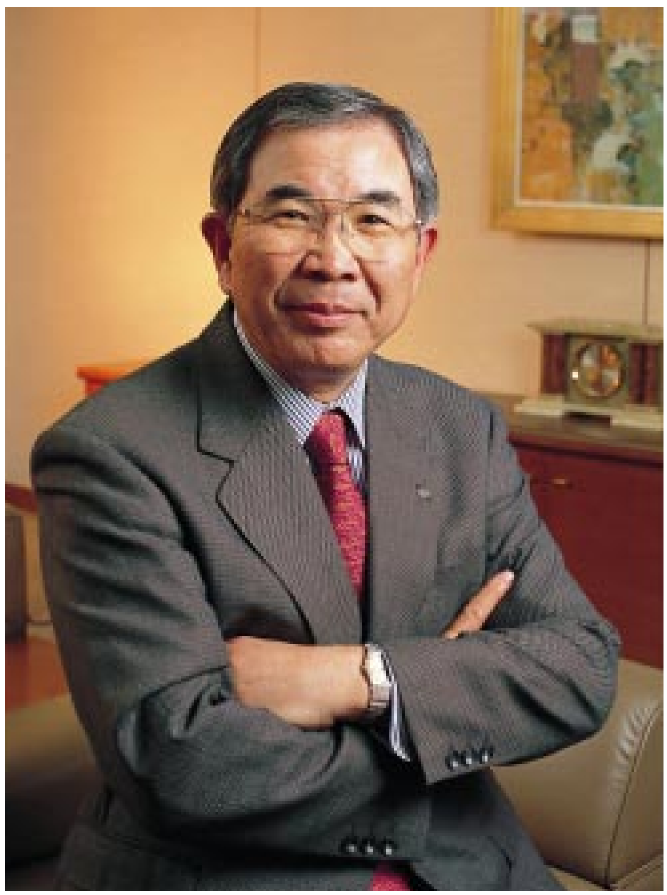


Message to **Shareholders**

Operating environment and business performance

—Amid a difficult operating environment, the Company managed to achieve an increase in revenues—

In fiscal 2001, ended March 31, 2001, against a background of healthcare reforms aimed at restraining healthcare expenditures and increases in the cost of new drug development, Kyowa Hakko faced intensifying competition in its core Pharmaceuticals business. Domestic and foreign companies in the pharmaceutical industry reorganized in an effort to remain competitive, while in Japan, in April 2000, the National Health Insurance (NHI) drug price standard was lowered for the first time in two years. In Bio-Chemicals, price competition intensified further at home and abroad, and in our Chemicals business we faced soft market conditions and rising raw material costs due to the jump in crude oil prices. In Liquor and Food, our performance was adversely affected by weak consumer spending and falling prices.



In this challenging operating environment, consolidated net sales in fiscal 2001 edged up 0.2% from the previous fiscal year, to ¥375.6 billion, due to stronger sales of existing drugs and new product launches in our Pharmaceuticals business as well as increased sales by overseas subsidiaries engaged in the manufacture and sale of feed-grade amino acids in our Bio-Chemicals business. Although there were signs of an improvement in performance, such as a turnaround in our Liquor and Food business and a lower operating loss in our Bio-Chemicals business, consolidated operating income in fiscal 2001 declined 18.2% from the previous fiscal year, to ¥17.7 billion. This decrease can be attributed to drug price reductions, a suspension in shipments of our drug Acenalin® (cisapride), and increased R&D costs due to a stepping up of overseas clinical trials in our Pharmaceuticals business as well as the effects of weak market conditions and rises in the price of naphtha in our Chemicals business. Consolidated net income in fiscal 2001 also declined, down 16.7% from the previous fiscal year, to ¥9.4 billion.

With the adoption of a new accounting standard for retirement benefits, Kyowa Hakko recorded an extraordinary loss of ¥24.7 billion to cover a shortfall in pension fund. In addition, the Company contributed certain investments in securities to the setting up of a pension trust and declared an extraordinary gain of ¥18.1 billion.

Net income per share declined to ¥21.6, from ¥26.0 in the previous fiscal year, and cash dividends per share were ¥7.5.

Progress in implementing our seventh three-year, medium-term management plan

—Aiming for Companywide profitability through the further implementation of management reforms—

To mark the 50th anniversary of the Company's establishment in July 1999, Kyowa Hakko initiated its seventh medium-term management plan, Into the 21st Century, for the three-year period from April 1999. This plan is based on the corporate philosophy of contributing to the health and well-being of people worldwide by creating new value through the pursuit of advances in life science and technology. The plan aims to create an efficient corporate structure with the capacity to generate consolidated operating income of more than ¥34.0 billion and to achieve an ROA of 3.2% or higher.

In June 1999, Kyowa Hakko introduced an In-House Company System and Executive Officers Committee to speed up the decision-making process and more clearly define responsibility for business performance. In the year under review, the Company also implemented new management reforms, including a wide-ranging reorganization of its corporate divisions in April 2000, aimed at strengthening its strategic planning capabilities and improving its administrative efficiency.

We were unable to realize profitable operations across all of our businesses during fiscal 2001, the second year of the medium-term management plan. Nonetheless, we did see some concrete results in our Liquor and Food business, recording operating income compared with an operating loss in fiscal 2000. Also, our Bio-Chemicals business significantly reduced the size of its operating loss. Our Chemicals business, however, reported a larger operating loss during the year, indicating certain problems still remain to be resolved.

Kyowa Hakko is continuing to implement management reforms in the current fiscal year, ending March 2002, the final year of the medium-term management plan. While delegating more authority to each company, we are focusing on strengthening the In-House Company System by putting in place a performance- and responsibility-linked reward system for executives as well as a business performance evaluation system to better clarify operational responsibility. In our Head Office corporate divisions, we aim to raise efficiency through a 20% reduction in administrative costs and to strengthen planning capabilities by means of our strategic business planning committee. With the objective of increasing value across the entire Kyowa Hakko Group, the committee is addressing the need to improve problem-solving capabilities and performance to clearly define the direction of each company's business strategy and to achieve an optimal distribution of management resources. Furthermore, in April 2001, Kyowa Hakko launched its CS (Customer Satisfaction) management promotional project aimed at enhancing customer satisfaction and the Company's competitive edge.

Our medium-to-long-term vision for Pharmaceuticals: Reform for Value Creation

—Aiming to be a research-oriented global company and a leader in biopharmaceuticals and the treatment of cancer and allergies—

In our Pharmaceuticals business, we launched antiallergic agent Allelock (see column on right) to move onto the offensive in the market. Following up on this, we plan to launch Durotep, a transdermal analgesic for persistent pain associated with cancer, in the domestic market by the end of 2001. Overseas, we continued to progress with the clinical development of six drugs, including two drugs with particularly high potential: KW-6002, being developed as both an anti-Parkinson's disease agent and an antidepressant, and KW-7158 for urinary incontinence.

In line with these developments, in April 2001 we initiated our medium-to-long-term vision for our Pharmaceuticals business: Reform for Value Creation. This vision outlines a series of objectives to be achieved by fiscal 2011 in our mainstay Pharmaceuticals operations as well as the strategies and actions by which to achieve them. In realizing this vision, we aim to transform Kyowa Hakko into a highly profitable research-oriented global company and a leader in biopharmaceuticals and the treatment of cancer and allergies. To these ends, we aim to strengthen our domestic business base and to build up our future business assets in the form of new drugs for the global market. We are working to further enhance overseas clinical studies on promising new drugs, placing top priority on increasing future drug product assets* as a major source of Company's growth.

As part of our efforts to restructure, we made the decision to withdraw from the field of generic drugs, allowing us to channel more of the Company's resources into new drug development. Consequently, we agreed to sell our subsidiary Mohan Medicine Research Institute Ltd. to a group company of Merck KGaA in January 2002.

In fiscal 2000, I was appointed to the concurrent post of president of Kyowa Hakko's Pharmaceuticals Company, holding the position for more than a year. During this time, I not only had the opportunity to see firsthand the future direction of our Pharmaceuticals business but also had the chance to clearly set out our medium-to-long-term vision. With the handover of control of the Pharmaceuticals business to my successor, I am pleased to be able to fully dedicate myself to the management of the Kyowa Hakko Group.

Business strategies in other business divisions

—Bio-Chemicals: Reorganizing amino acid feed additive operations—

The Company increased its stake in two joint venture feed-grade amino acid manufacturing subsidiaries, Agroferm in Hungary and Fermex in Mexico, to 100%. Including Biokyowa in the United States, Kyowa Hakko now has three wholly owned subsidiaries engaged in the production of feed-grade amino acid, giving the Company the ability to develop a more responsive strategy in this area of its operations. Kyowa Hakko is pushing forward with the further reorganization of this business, pursuing possible alliances in such areas as raw materials sourcing, sales, and financial funding to strengthen its global reach and raise competitiveness.

Meanwhile, in fine chemicals centering on amino acids and nucleic acids, which draw on the Company's fermentation technologies, Kyowa Hakko is aiming to achieve strategic growth by focusing on the pharmaceutical and functional food markets.

* Future drug product assets refers to the total expected present value (EPV) of the drug development pipeline, i.e., the EPV of a drug is the amount of estimated cash flow for 20 years after its launch at present value minus its estimated development cost at present value.

Allelock, a promising new in-house-developed drug

Kyowa Hakko launched its promising new in-house-developed drug Allelock (olopatadine hydrochloride) on the domestic market in March 2001. Allelock is an antiallergic agent that uses antihistaminic action to effectively control the three symptoms of allergic rhinitis—sneezing, nasal discharge, and nasal obstruction. It is also effective against urticaria, or hives, and itching associated with skin disorders. In addition to having few of the usual side effects associated with antihistamines, such as sleepiness, malaise, and dry mouth, it works quickly and effectively for a wide range of allergic disorders. In Japan, there are 15 million sufferers of allergic rhinitis—of which only 5 million are receiving treatment—and the value of the market for allergic rhinitis treatments is estimated to be ¥150.0 billion.

Allelock has performed well since its launch, with forecast sales for the current fiscal year of ¥10.0 billion and estimated maximum annual sales of ¥20.0 billion.

In 1996, olopatadine hydrochloride was licensed out to Alcon Laboratories Inc., of the United States, which is marketing the drug as eyedrops for the treatment of allergic conjunctivitis in 30 countries, focusing mainly on the United States and Canada. Sales of the drug have continued to grow strongly since its launch.

—Chemicals: Implementing structural reforms based on alliances and a reorganization of operations—

In our Chemicals business, we are taking steps to establish an operational structure that is capable of adjusting to shifts in the economy and operating environment. In April 2000, we combined our plasticizers business with that of Mitsubishi Chemical Corporation, establishing a joint venture that has the number one share of the domestic market for the production and sale of plasticizers. Also in the year under review, we made the decision to withdraw from the unprofitable detergent raw materials business by May 2002. By forming alliances and reorganizing our operations, we are pushing forward with a restructuring of the Chemicals business and refocusing on basic chemicals, including solvents. We are also aiming to cut costs further through rationalization and reductions in energy consumption and resource usage.

At the same time, in specialty chemicals, we are leveraging our world-leading range of synthetic fatty acids and other products to cultivate the market for innovative eco-friendly products.

—Liquor and Food: Maintaining profitable operations—

In our Liquor and Alcohol operations, we are working to build on our return to profitability by further raising cost-effectiveness and by developing leading products in the three key areas: *shochu,* low-alcohol refreshers, and wine.

Similarly, we are taking steps to ensure our Food operations remain profitable by strengthening our industry-leading natural seasonings business, strategically developing our range of nucleotide seasonings, which are now being manufactured in the United States, and expanding our health foods business with a focus on such strategic products as Remake Choleste-block, a functional food product that lowers cholesterol levels.

Corporate Governance

—Aiming for maximum corporate value—

Kyowa Hakko is making a concerted effort to implement its medium-term management plan and its range of management reforms based on the goal of building a business framework that is capable of responding quickly to changes in the environment. As Kyowa Hakko—a research-oriented company committed to customer satisfaction—strives to develop the global reach of its business, it is aiming to boost profitability and raise management efficiency to maximize total corporate value across the Kyowa Hakko Group. The Company is also using IR channels to actively disclose information related to the running of its business and employing independent legal experts as auditors to create a more transparent management structure. In addition, Kyowa Hakko is extensively involved in activities that contribute to the protection of the environment and the betterment of society as a whole.

Outlook for Fiscal 2002

—Higher sales and improved profitability in all areas of businesses—

The difficult operating environment is expected to continue during fiscal 2002, ending March 31, 2002, due to few signs of an upturn in levels of private- and public-sector investment and personal consumption, a depressed domestic stock market, and a slowdown in the U.S. economy.

Nonetheless, Kyowa Hakko forecasts year-on-year rises in sales and profitability across all areas of its businesses in the current fiscal year. In fiscal 2002, the Company projects consolidated net sales of ¥390.0 billion (3.8%, or ¥14.4 billion, up on 2001) and net income of ¥11.0 billion (17.1%, or ¥1.6 billion, up on 2001), mainly due to the sales contribution of the recently launched Allelock in Pharmaceuticals, increased exports of amino acids for use in pharmaceutical products and a turnaround in overseas market conditions for feed-grade amino acids in Bio-Chemicals, and improved sales of existing products and new product launches in Chemicals and Liquor and Food, as well as to overall cost efficiency gains.

In closing, we would like to take this opportunity to thank our shareholders for their support and ask for their continued understanding and trust as we face the challenges ahead.

July 2001

Tadashi Hirata

President and Chief Executive Officer

Focused on **Winning**

Medium-to-Long-Term Vision for Pharmaceuticals Business Established

n Winning

Strengthening the Pharmaceuticals business through the constant search for innovative drugs

Against a backdrop of enormous change in the provision of healthcare brought about by the successful sequencing of the human genome, Japanese pharmaceutical companies are finding themselves operating in a radically shifting environment due to reforms targeting restrictions in healthcare expenditures and the rising cost of new drug development. As competition intensifies on a global scale, companies in the industry are experiencing a period of reorganization that transcends national borders.

Kyowa Hakko sees this period of transformation as a chance for growth, and in April 2001 the Company outlined its medium-to-long-term vision for its core Pharmaceuticals business—Reform for Value Creation—to take advantage of the emerging opportunities in the industry. Guided by this vision, over the next 10 years, Kyowa Hakko will work to put in place its own technology platform for the development of new and innovative drugs and seek partners across a wide range of fields to help leverage its current drug portfolio and develop future drug product assets.

Outline of the Vision

Realizing the medium-to-long-term vision of the Pharmaceuticals business

In fiscal 2011, Kyowa Hakko will be:

(1) a highly profitable, research-oriented global company with annual pharmaceutical sales of ¥300 billion, and

(2) a leader in biopharmaceuticals and the treatment of cancer and allergies

To ensure the realization of this vision, a plan will be initiated in two five-year stages over the 10 years through the end of fiscal 2011. The core objectives for each stage of the plan are outlined hereafter.

Stage One

Strengthening the domestic Pharmaceuticals business and developing future drug product assets

Targeting annual pharmaceutical sales of ¥170 billion

Kyowa Hakko will strengthen its brand presence in the domestic market for anticancer drugs by building on the success of its first cancer treatment, Mytomycin C, with Navelbine®, which was launched in 1999, and Durotep, a transdermal analgesic for persistent cancer pain to be launched later this year.

The Company will strive to win the leading share of the domestic market for antiallergic drugs, based on its existing product Celtect® and its new antiallergic agent Allelock, which was launched in March 2001.

Centered on its Strategic Product Development Team, which was set up at the end of 2000, the Company will work to further develop and promote key existing drugs, such as its therapeutic agent for hypertension and angina pectoris, Coniel®, by widening indications and adding different drug forms.

Medium-to-Long-Term Vision for Fiscal 2011

- Highly profitable, research-oriented global company with annual pharmaceutical sales of ¥300 billion and operating income of ¥60 billion.
- Leader in biopharmaceuticals and the treatment of cancer and allergies.

Two Stages for Achieving the Vision

Stage 1 (through 2006): Strengthening the domestic Pharmaceuticals business and developing future drug product assets

Stage 2 (2006 to 2011): Expanding the Pharmaceutical business with a focus on overseas markets

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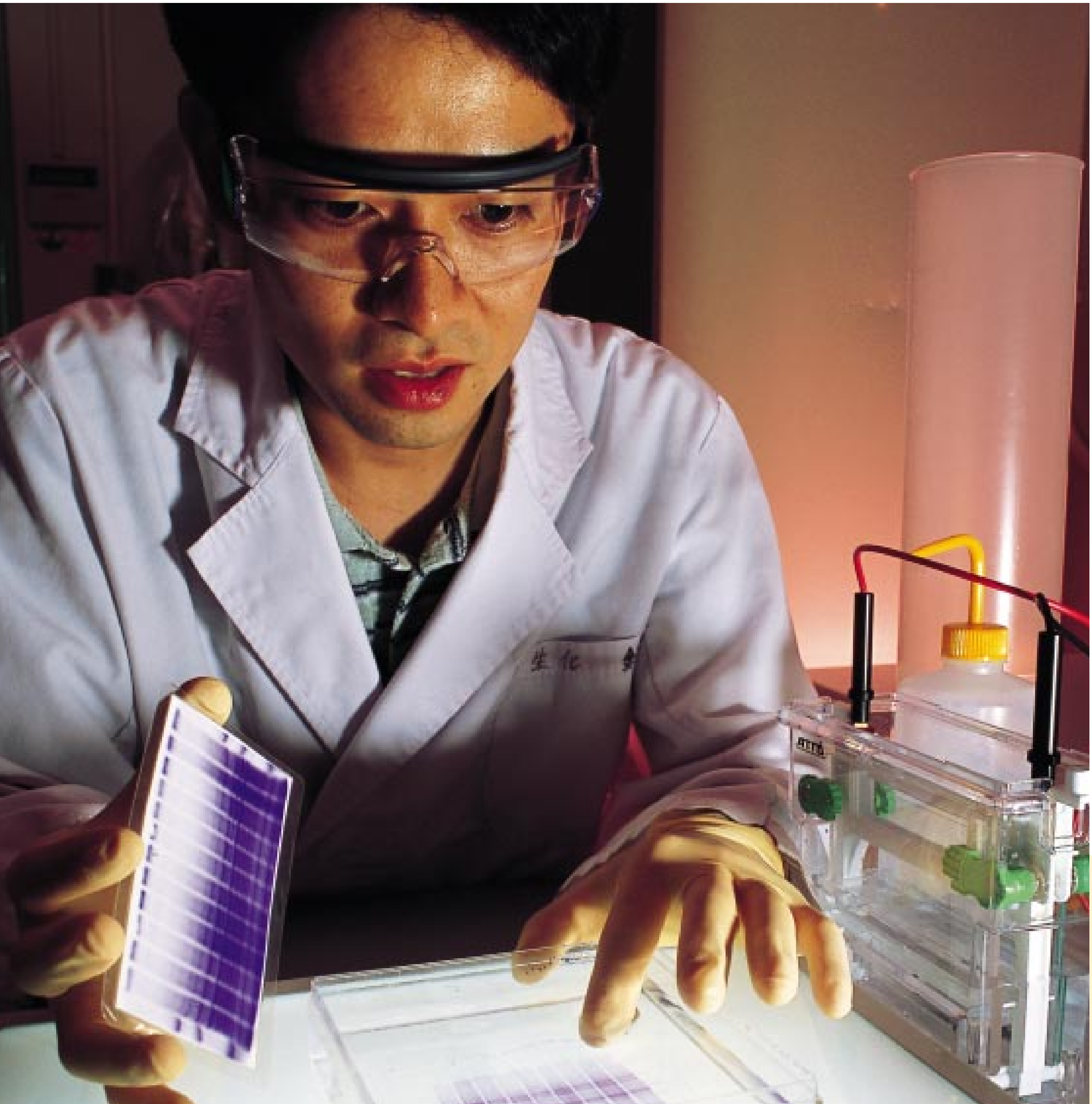

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Kyowa Hakko will strategically introduce drugs into domestic market areas in which it already has a strong presence, including the market for cardiovascular agents where Coniel® and Inovan®, a treatment for acute circulatory failure, are well established.

Creating future drug product assets of ¥300 billion

By the end of fiscal 2003, the Company will boost the current personnel numbers at Kyowa Pharmaceutical, Inc., in the United States, and Kyowa Hakko U.K. Ltd., in the United Kingdom, to 33 and 13, respectively, enabling the Company to begin overseas clinical trials of two drug candidates a year. Kyowa Hakko will also set up clinical development capabilities in China.

From fiscal 2004 through 2006, the Company will realign its manufacturing activities to respond to progress in its drug development program, strengthen existing sales and marketing structures in the United Kingdom and the rest of Europe, upgrade and expand existing facilities in China, and build a sales and marketing structure that is more attuned to market demand in the United States.

To improve its drug discovery capabilities, Kyowa Hakko will establish an organizational framework centered on its new Drug Discovery Division, which was set up in April 2000, and, over the next five years, push ahead with the following three measures:

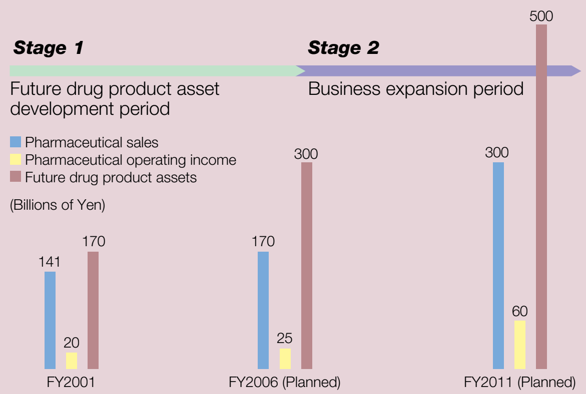
(1) Kyowa Hakko will concentrate two-thirds of its R&D resources in the therapeutic fields of cancer and allergy treatments. The remaining third will be allocated to strategic projects that the Company sees as promising areas for development, and the promotion of existing Kyowa Hakko products. Additionally, the Company will build up its chemo-informatic capabilities as a comprehensive platform for drug discovery by strengthening molecular design processes, making full use of microbial resources, and focusing on antibody, genome, and combinatorial chemistry and high throughput screening (HTS) technologies.

(2) Centered on the Company's recently established Research Alliance Department, Kyowa Hakko will actively seek partnerships with universities and technology licensing organizations (TLOs) to foster and support promising new drug research.

(3) Through reforms targeting R&D management, such as appointing research area and technology managers, increasing the number of R&D marketing personnel, and introducing a personnel system to energize R&D staff, Kyowa Hakko will work to strengthen its drug portfolio strategy and to enhance its R&D programs for lauching new potential drugs attuned to market demand.

In response to developments in genome research, Kyowa Hakko will make use of genetic data resources to develop new drug products and work to offer drugs that truly meet the needs of the patient (therapeutic antibodies, small molecule pharmaceuticals, diagnostic reagents) with a focus on creating new antibodies from promising new research targets.

Two-Stage Plan



Stage 1: Securing Market Position by Strengthening the Company's Domestic Business Base

- ✼ Increase brand presence in the domestic market for anticancer drugs
- ✼ Achieve a market lead in antiallergic agents
- ✼ Strategically promote existing drugs
- ✼ Optimize production processes and quality assurance systems
- ✼ Secure a market-leading position by introducing strategic drugs (cardiovascular agents)

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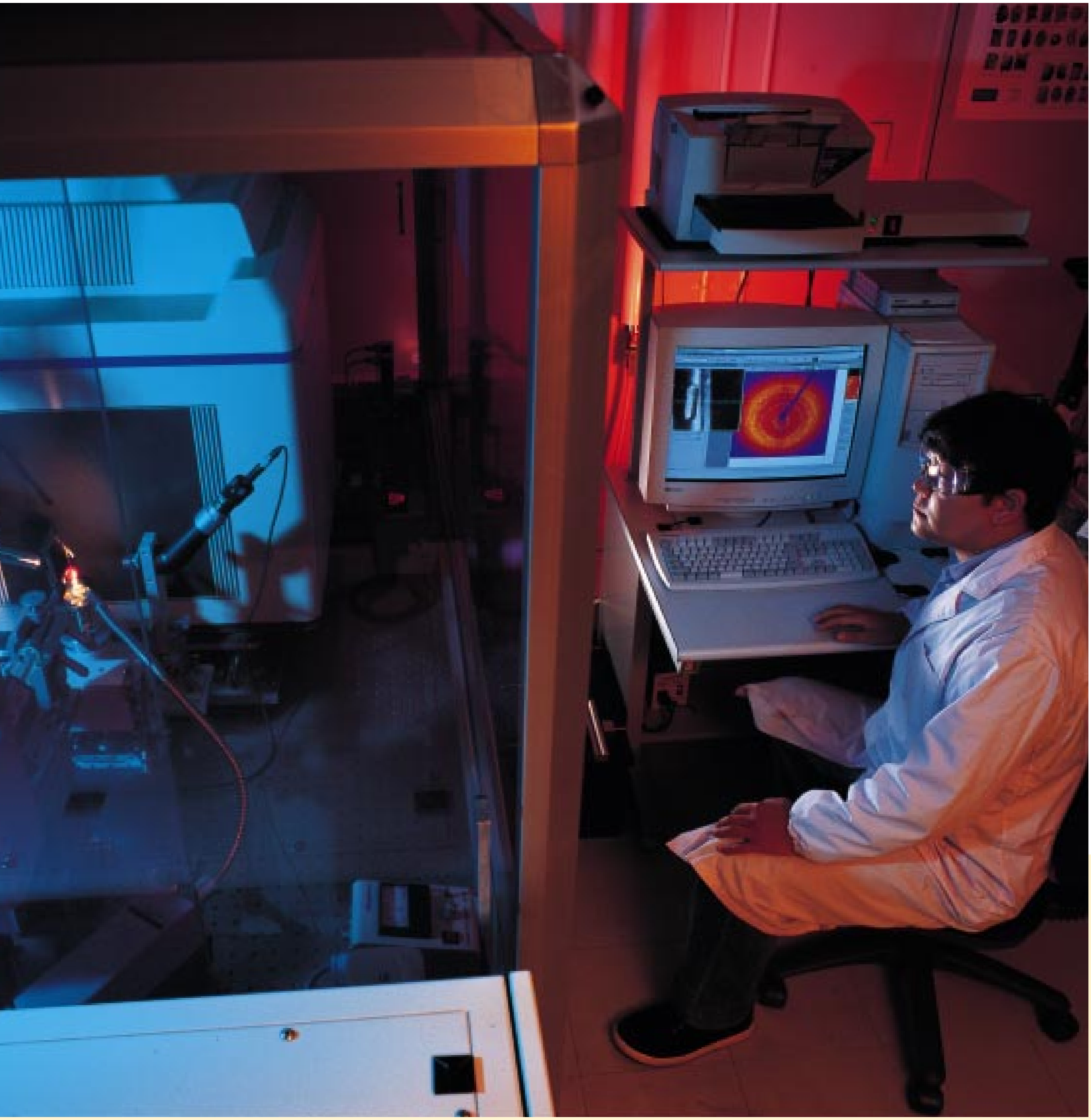


n Winning

Stage Two

Expanding the Pharmaceuticals business with a focus on overseas markets

Aiming to achieve global annual sales of ¥300 billion

Through the launch of new drugs in overseas markets, the Pharmaceuticals Company will aim to achieve annual global sales of ¥300 billion by the end of fiscal 2011 (overseas sales: ¥100 billion; domestic sales: ¥200 billion).

Compounds currently under development overseas:
KW-6002: Parkinson's disease, depression
KW-2401: Anticancer
KW-2170: Anticancer
KW-7158: Urinary incontinence
KW-2871: Anticancer monoclonal antibody (melanoma)
KW-4490: Antiasthmatic

Boosting future drug product assets to ¥500 billion

Kyowa Hakko is looking to boost the value of its future drug product assets to ¥500 billion, based on new small molecule pharmaceuticals and increases in the numbers of therapeutic antibodies undergoing clinical development as well as on the commercialization of the latest technologies in such fields as regenerative therapy.

Breakdown by medicinal category
Biopharmaceuticals: ¥200 billion;
Small molecule phamaceuticals: ¥300 billion
Breakdown by therapeutic area
Cancer: ¥200 billion; Allergy: ¥200 billion; Others: ¥100 billion

Drug Discovery Value Chain

Kyowa Hakko is striving to be a leader in biopharmaceuticals and the therapeutic areas of cancer and allergy treatments, developing future drug product assets in these priority fields while working on such strategic projects as research into treatments for Parkinson's disease and its related disorders. In particular, in the area of anticancer agents, we are developing new therapeutic antibodies that fulfill the unmet needs of the medical market and enhancing our pipeline with second-generation therapeutic antibodies based on our core technology that produces antibodies with a high rate of antitumor activity.

In the therapeutic area of allergy treatment, we have recently launched Allelock, which is particularly effective for nasal obstruction, and we are continuing to carry out detailed research into its superior action. We are also developing innovative small molecule pharmaceuticals by rational approaches using chemo-informatics, a comprehensive platform for drug development based on microbial resources, molecular design technology, and combinatorial chemistry.

Kyowa Hakko has applied its biotechnological expertise, acquired through its core fermentation technologies, and used its chemical engineering skills to succeed in the mass production of the tuberculosis remedy streptomycin and the anticancer agent Mytomycin C. These achievements have contributed to improvements in the health and well-being of people worldwide. Today, Kyowa Hakko is conducting genome-based drug discovery by combining genomic information resources with its tried-and-

Three Key Reforms for Innovative Drug Discovery

- Focus R&D resources on strategic markets and core technologies
- Establish a new R&D management system
- Strengthen R&D alliances

Stage 2: Improving Performance with a Focus on Overseas Markets

- Achieve global annual sales of ¥300 billion through new drug launches in overseas markets
- Build future drug product assets of ¥500 billion with next-generation technologies

Focused o

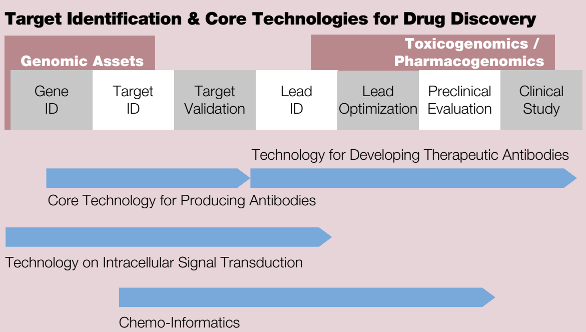
tested in-house technologies. The Company is also building a more effective drug discovery process centered on its ability to select information of value and its proprietary core technologies.

With the highly advanced technology now available in the pharmaceutical industry, Kyowa Hakko believes it is essential to put in place an efficient R&D structure that makes use of the latest engineering technologies to aid the cure of disease. To do that, Kyowa Hakko is undertaking research in a number of promising areas: cutting-edge antibody technologies to create highly effective therapeutic antibodies; technology that utilizes animal cells to produce large volumes of new and innovative proteins in a short period of time; and drug delivery systems that allow medicines to be delivered timely and efficiently to affected sites. In accordance with its strategy of channeling resources into R&D, Kyowa Hakko will direct greater efforts toward achieving progress in these research areas, which will also make a major contribution to validating targets for small molecule pharmaceuticals.

The Company's drug discovery and development process begins with finding unmet medical needs in the market through close cooperation with medical institutions and clinicians, using this insight to research and develop new drugs and treatments that address the needs of patients.

In short, Kyowa Hakko is striving to become a global company that clearly sets itself apart from its competitors in the biopharmaceutical industry by offering drugs that truly meet the requirements of patients and that fulfill the unmet needs of the medical market.

Kyowa Hakko's Drug Discovery Value Chain



R&D Pipeline

In line with its medium-to-long-term vision for its Pharmaceuticals business, Kyowa Hakko is actively engaged in overseas drug development. The Company is focusing on the following three candidate compounds:

KW-6002: An agent for the treatment of Parkinson's disease

KW-6002, the first selective adenosine A_{2A} receptor antagonist in the world, has been in Phase II clinical studies in the United States since September 1999. The compound has no adverse effects, such as dyskinesia or psychosis.

KW-6002 has also been in Phase II clinical studies as an antidepressant agent in the United States since July 2000.

KW-2170: An agent for the treatment of malignant tumors

KW-2170, a pyrazoloacridone compound and a DNA-intercalator with Topoisomerase inhibitory activities, has been in Phase I clinical studies in the United States since January 2000.

KW-7158: A therapeutic agent for urinary incontinence

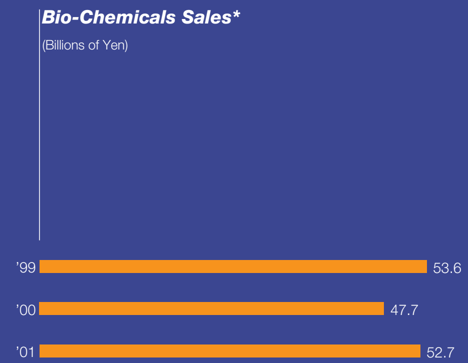
KW-7158, a tricyclic compound with a non-cholingergic mechanism of action, entered Phase II clinical studies in the United Kingdom in June 2001.

n Winning

Stage

Code Name *Generic Name*	Category	In-house/ Licensed From	Stage Overseas (country)	Remarks
Filed				
KW-2307 *Vinorelbine*	Anticancer (Indication: breast cancer)	Pierre Fabre		Product name: Navelbine® Launched in Japan for non-small-cell lung cancer
KW-8008 *Desmopressin*	Nocturnal enuresis	Ferring A.B.		
KJK-4263 *Fentanyl*	Transdermal analgesic for persistent cancer pain	Janssen		Jointly developed with Janssen Kyowa Product name: Durotep
Phase II, III				
KW-9100	Diagnostic agent for *H. Pylori*	Diabact		
KW-6485 *Topiramate*	Antiepileptic	Cilag		
MM-Q01	Contrast medium for MRI	Meiji Milk Products		Jointly developed with Meiji Milk Products
KW-2307	Anticancer (Indication: multiple myeloma)	Pierre Fabre		Product name: Navelbine®
Phase I				
KW-6002	Parkinson's disease	In-house	Phase II (EU and U.S.)	
KW-6002	Antidepressant	In-house	Phase II (U.S.)	
KW-2401 (UCN-01)	Anticancer	In-house	Phase I (U.S.)	
KW-2170	Anticancer	In-house	Phase I (U.S.)	
Pre-Clinical				
KW-7158	Urinary incontinence	In-house	Phase II (U.K.)	
KW-2871	Anticancer monoclonal antibody (melanoma)	In-house	Phase I (Australia)	
KW-4490	Antiasthmatic	In-house	Phase I (U.K.)	
KT5555	Anticancer (oral)		Phase II (U.S.)	Developed by Cephalon
KT8391	Anticancer (injection)		Phase I (U.S.)	Developed by Cephalon
KT7515	Parkinson's disease		Phase I (EU)	Developed by Cephalon

Review of **Operations**



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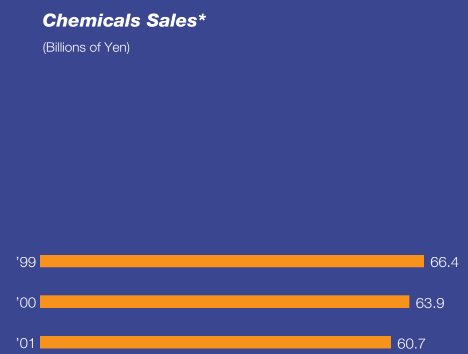
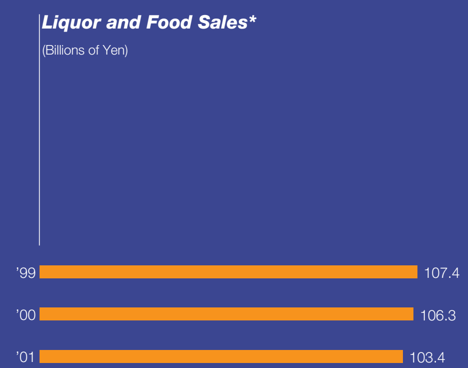




* Figures include inter-segment transactions.

Pharmaceuticals

In the current fiscal year, ending March 31, 2002, guided by Kyowa Hakko's medium-to-long-term vision for its Pharmaceuticals business, the Pharmaceuticals Company will work to strengthen its domestic business base and build an R&D structure that is capable of creating new and innovative drugs that can compete in the global market. The company is striving to achieve these goals by increasing its domestic market penetration with new drugs, such as Allelock (olopatadine hydrochloride), and key existing drugs, such as Coniel®; concentrating R&D resources in its targeted therapeutic market segments of cancer and allergy treatments; and enhancing overseas clinical development bases to speed up R&D processes.

Company President
Toru Doiuchi,
Senior Managing Director

Overview

During fiscal 2001, the Pharmaceuticals Company posted a marginal 0.6%, or ¥0.9 billion, decline in total sales from the previous fiscal year, to ¥141.5 billion. Despite higher income from drug exports and revenue from licensing agreements, slightly lower domestic sales of core ethical drugs and a weaker performance by diagnostic reagents contributed to the decrease. Operating income fell 17.8%, or ¥4.2 billion, to ¥19.6 billion, due to the reduction in NHI drug reimbursement prices, the suspension in shipments of Acenalin® (cisapride), a gastroprokinetic agent, and higher R&D expenses.

Operational Review

Ethical Drugs

In ethical drugs, Kyowa Hakko faced difficult market conditions due to the lowering of the NHI drug price standard, in April 2000, for the first time in two years, and the suspension of sales of Acenalin® in October 2000. Coniel®, an agent for treating hypertension and angina pectoris, and Neu-up®, a human recombinant granulocyte-colony stimulating factor (G-CSF) derivative for treating neutropenia, both recorded higher sales volumes. Itrizole®, an oral antimycological agent, and Navelbine®, an anticancer agent for use in the treatment of non-small-cell lung cancer, also posted stronger sales. The Company launched Leukoprol®, a treatment for leukopenia, in October 2000 and Allelock, the promising in-house-developed antiallergic agent, in March 2001, with both drugs recording strong early sales. Despite these successes, sales of ethical drugs failed to exceed the previous year's level.

Olopatadine hydrochloride, an antiallergic agent licensed out to Alcon Laboratories Inc., of the United States, recorded strong export sales, making an

Principal Drug Sales *(Nonconsolidated basis)*

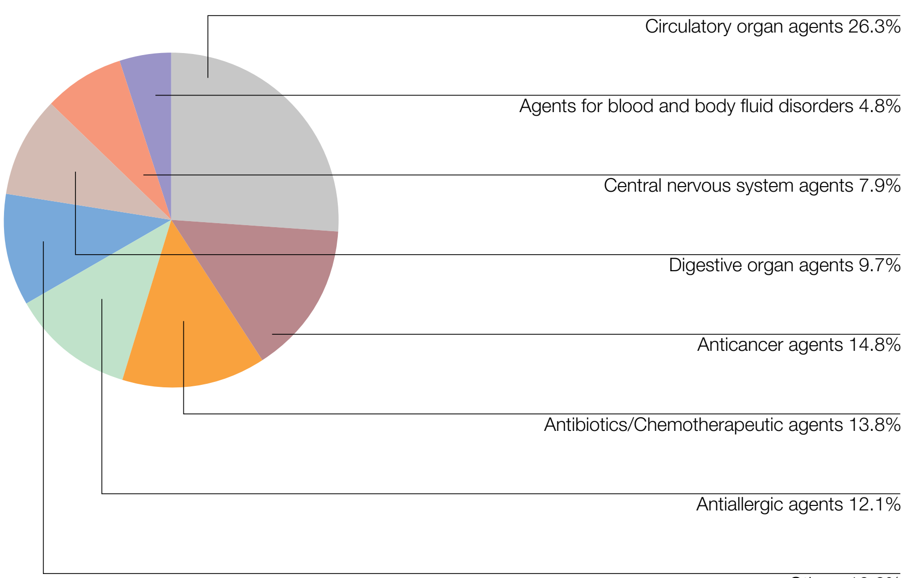
	Billions of Yen	
	2001	2000
Coniel	**¥30.1**	¥29.7
Itrizole	**17.7**	11.0
Celtect	**15.6**	16.6
Depakene	**9.5**	9.3
Nauzelin	**8.4**	8.2
5-FU	**7.1**	8.2
Adriacin + Farmorubicin	**6.8**	6.8
Inovan + Pre Dopa	**6.2**	6.8
Neu-up	**5.9**	6.1
Acenalin	**4.6**	10.3
Allelock	**1.7**	–

important contribution to the overall performance of the company.

In the area of new drug development, the Pharmaceuticals Company is seeking approval for the additional indication of nocturnal enuresis for Desmopressin. In June 2000, Durotep (fentanyl), a transdermal analgesic for persistent cancer pain, was submitted for regulatory approval, along with Navelbine® for the additional indication of breast cancer. An application for a new indication for anticancer agent Dacarbazine was filed, while KW-9100, a diagnostic agent for *H.Pylori*, completed Phase III trials. KW-6485 (topiramate), an anti-epileptic agent, and MM-Q01, a digestive organ contrast medium for MRI, are also undergoing clinical trials.

Overseas, KW-6002, under development as a treatment for Parkinson's disease, is in Phase II trials in the United States as an antidepressant. Clinical trials of KW-2170, an anticancer agent, and KW-7158, an agent for treating urinary incontinence, are also progressing well. With the aim of expanding into other business areas, the Pharmaceuticals Company is engaging in licensing activities both at home and abroad, licensing

Fiscal 2001 Sales Breakdown
(Nonconsolidated basis)



Kyowa Hakko U.K. Ltd. in the United Kingdom

Kyowa Pharmaceutical, Inc. in the United States

Principal ethical drug products

out in-house-developed products and introducing new drugs into the Japanese market.

Diagnostic Reagents

The healthcare industry is continuing to seek ways of reducing the costs associated with healthcare provision. The rationalization of diagnostic testing divisions at medical institutions, the implementation of Facility Management Systems (FMS) at large-scale testing centers, and the gradual diffusion of minute-amount devices in testing processes have all contributed to the ongoing contraction in the domestic market for diagnostic reagents. This, combined with intensifying competition, resulted in a particularly difficult operating environment in the year under review.

Despite efforts to respond to this situation through aggressive marketing activities by Kyowa Medex Co., Ltd., and measures to reduce management costs, sales in fiscal 2001 did not reach the previous year's level.

In clinical chemistry, sales of the company's mainstay product, Determiner® HDL-C for measuring high-density lipoprotein (HDL) cholesterol, declined year on year due to tougher competition in the domestic market and the effect of a weaker deutsche mark on exports. In immunoassay, although sales of the Extel® series of latex immunoassay reagents declined, the Chemilumi® series of immunological chemo-luminescent reagents achieved sales level with the previous fiscal period and sales of Determiner® HbA1c, a diabetes reagent, have continued to grow strongly. The number of testing facilities employing Kyowa Medex's automated analyzers in immunoassay, such as DM-JACK, continued to increase, contributing to higher sales of diagnostic reagents that are used with the devices.

Diabetes mellitus test analyzer DM-JACK

Bio-Chemicals

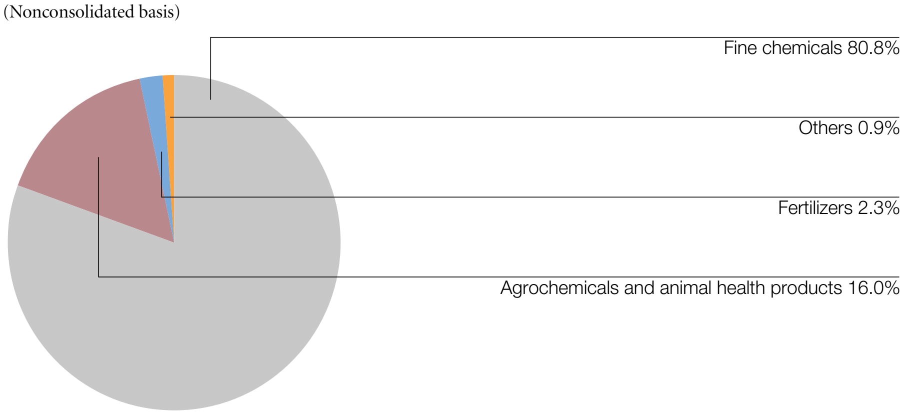
Based on Kyowa Hakko's core biotechnologies, the Bio-Chemicals Company is working to create new bulk products, not only targeted at the pharmaceutical industry but also for use in cosmetics and health foods. The Bio-Chemicals Company will push ahead with plans to reorganize its lysine business to enhance global reach, raise competitiveness through reductions in manufacturing costs, and further improve its profit-generating structure.

Company President
Minoru Sakurai,
Senior Executive Officer

Overview

During fiscal 2001, supported by strong domestic and overseas sales of feed-grade amino acids, total sales by the Bio-Chemicals Company increased 10.6%, or ¥5.1 billion, from the previous fiscal year, to ¥52.7 billion. Despite the adverse effects of the weak euro on exports, efforts to reduce costs resulted in a 43.2%, or ¥0.9 billion, reduction in the company's operating loss from the previous fiscal year, to ¥1.2 billion. Although it did not realize a turnaround, the Bio-Chemicals Company made good progress in strengthening its foundation for a return to profitability.

Fiscal 2001 Sales Breakdown
(Nonconsolidated basis)



Operational Review

Fine Chemicals

During the year under review, the company worked to expand product applications and boost sales of fine chemicals for pharmaceuticals and industrial use, centered on amino and nucleic acids. However, the effects of reductions in NHI drug reimbursement prices and competition from imported products led to a drop in sales. Despite achieving higher export volumes, the effects of the weak euro were considerable, contributing to

Biokyowa plant in the United States

Fermex plant in Mexico

Agroferm plant in Hungary

lower year-on-year export sales.

In recent years, amino acids have been attracting attention for industrial use, and there has been growing demand for amino acids for use in cosmetics and health foods. The company has focused on developing new amino acid applications for these market segments, successfully launching L-hydroxyproline as a raw material for cosmetic products. In January 2001, FANCL Corp., a Japanese health and beauty company, began sales of a hair-growth accelerator for women, Hair Lesson, developed in conjunction with Kyowa Hakko.

In R&D, the company shifted to the development of new applications for oligosaccharides and sugar nucleotides, on the back of successfully developing manufacturing processes that enable the world's first commercial production of these substances.

Agrochemicals, Animal Health Products, and Fertilizers

Due to increased sales of the company's feed-grade amino acids and ecto-parasiticide for the pisciculture industry, total sales were up year on year. Rising sales of a new dietary supplement for pets, launched in June 2000, also contributed to higher overall sales. Sales of agrochemicals were down from the previous year's level, reflecting the continuing slump in the agrochemicals industry.

Feed-Grade Amino Acids

Kyowa Hakko operates three overseas subsidiaries engaged in the production and sale of feed-grade amino acids. Although Agroferm, of Hungary, faced few operational difficulties during the year, Biokyowa, of the United States, and Fermex, of Mexico, struggled to improve sales from fiscal 2000 levels due to challenging operating environments in their respective markets, resulting from an insufficient recovery in the retail price of feed-grade amino acids.

Chemicals

The Chemicals Company is working to further strengthen its domestic market presence in basic chemicals by enhancing cost-competitiveness and actively seeking alliances in key market segments, such as solvents. In specialty chemicals, the company is pushing forward with the development of new eco-friendly products and raw materials for the electronics industry that incorporate higher levels of functionality and innovation.

Company President
Ayao Kikuchi,
Senior Managing Director

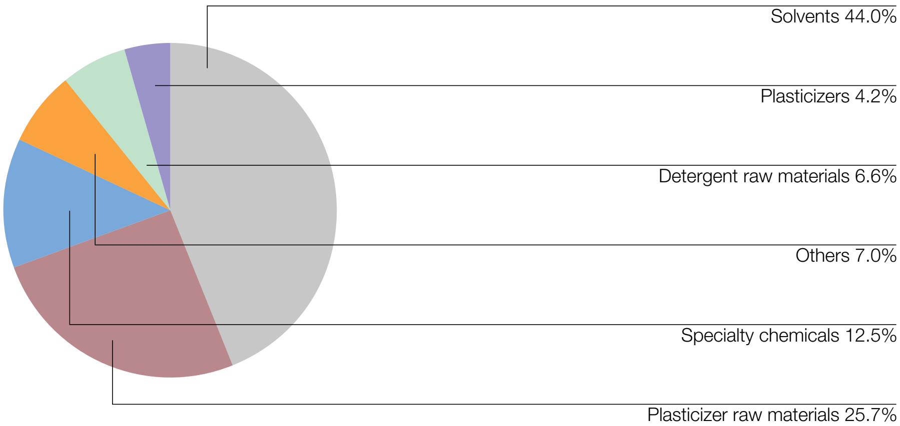
Overview

The operating environment in the petrochemical industry was adversely affected by the continuing slowdown in the U.S. economy, weakening demand in the latter half of the year in Asia, and sluggish demand in the domestic market. Against this backdrop, shipment volumes and sales levels in the Japanese market were down year on year, partly due to the effect of Kyowa Hakko's plasticizers business coming under the control of J-PLUS Co., Ltd., a joint venture with Mitsubishi Chemical Corporation. Export volumes and sales also declined due to the softening conditions in international markets.

Although prices of raw materials, such as naphtha, entered a period of readjustment in the latter half of the year, they remained markedly higher than the levels in fiscal 2000. Despite raising prices in response to the increase in raw material costs, the company's profit margins continued to be severely affected.

As a result of these factors, the Chemicals Company recorded a 5.1%, or ¥3.2 billion, decline in total sales from the previous fiscal year, to ¥60.7 billion, and an operating loss of ¥2.7 billion, an increase of ¥1.6 billion from the previous year's loss.

Fiscal 2001 Sales Breakdown
(Nonconsolidated basis)



Kyowa Yuka's Yokkaichi Plant

Operational Review

Basic Chemicals

In basic chemicals, Kyowa Hakko is one of the leading companies in the manufacture of solvents and raw materials for plasticizers, based on its mainstay business of oxo alcohol production. During the year under review, increased sales of raw materials for plasticizers and sales of solvents could not offset the drop in revenues associated with the transfer of Kyowa Hakko's plasticizers business to J-PLUS. As a result, sales of basic chemicals were down from the fiscal 2000 level. With the aim of streamlining operations and boosting efficiency in the company's plasticizers business, Kyowa Hakko established J-PLUS, a 50-50 joint venture with Mitsubishi Chemical for the manufacture and sale of plasticizers in the domestic market. J-PLUS, which commenced operations in April 2000, is a domestic leader in the plasticizers industry and continuing to strengthen its market presence with cost savings achieved through synergies in such areas as distribution systems.

Specialty Chemicals

Despite a rise in production volume, sales of specialty chemicals remained at the previous year's level. Centered on aldehyde derivatives, the company boasts one of the world's most extensive lineups of synthetic fatty acids and diols. The Chemicals Company also manufactures a unique range of eco-friendly products, including lubricant raw materials for use as CFC substitutes, such as 2-ethyl hexanoic acid, isononanoic acid, and polyvinyl ether, as well as polyurethane sheeting for landfill sites and solvents that meet volatile organic compound (VOC) regulations. The company is continuing to develop new specialty chemicals, with a focus on eco-friendly products and highly functional raw materials for use in the electronics industry.

Liquor and Food

Liquor and Alcohol Company

Faced with an operating environment characterized by increasingly weak levels of personal consumption and intensifying downward price pressure, Kyowa Hakko actively worked to boost sales and launch new products in the market, targeting the key product areas of shochu*, seasonings, and bakery products and ingredients. However, such efforts failed to offset the fall in unit prices, resulting in a 2.8%, or ¥3.0 billion, decline in total sales from the previous year, to ¥103.4 billion. Despite this decrease in sales, benefits from cost-cutting measures initiated in the previous year resulted in operating income of ¥0.9 billion, a marked turnaround from the previous year's operating loss of ¥1.1 billion.*

Fiscal 2001 Sales Breakdown
(Nonconsolidated basis)

Overview

Business conditions in the liquor and alcohol industry continued to be difficult, with consumer spending and prices both falling below fiscal 2000 levels. Also, the retail industry experienced major shifts, with convenience stores, a strong-performing sector in the previous fiscal period, seeing a noticeable decline in sales on a same-store basis. Although these factors contributed to a challenging operating environment, the company worked to reduce costs, utilize management resources more effectively, launch new products, and boost sales of mainstay products. Despite a decline in sales, these measures contributed to a substantial improvement in profitability.

Operational Review

Shochu

In *shochu*, the company's mainstay product category, sales of Daigoro *shochu* in the first half of the year were adversely affected by competition from lower-priced imitation products similar to *shochu*. However, thanks to stepped-up management and marketing efforts, demand for Daigoro *shochu* improved in the latter half of the year and sales were

To maintain profitability and further strengthen its market presence, the Liquor and Alcohol Company is concentrating management resources on such mainstay products as *shochu,* low-alcohol refreshers, and wine while continuing to find efficiencies by widening the scope of cost-cutting measures in domestic and international raw materials supply and distribution structures.

Company President
Naoyuki Sorimachi,
Senior Executive Officer

level with fiscal 2000. Kyowa Hakko's increasingly popular Kanoka *shochu* also continued to perform well, supported by higher sales in the on-premises market.

Low-Alcohol Refreshers

Although the company's existing range of low-alcohol canned refreshers, Shitamachi Fumi, faced increasingly intense competition, Shitamachi Fumi Super Lemon, launched in July 2000, helped to lift overall sales of low-alcohol refreshers from the previous year's level.

Wine

Despite difficult market conditions characterized by a substantial decrease in the consumption of domestically produced wine, the launch of the company's pioneering range of sulfite-free, organic wines helped to offset the fall in overall market demand. Although the demand for imported wines increased only slightly, success in exploiting new market areas contributed to an above-industry-average performance by the company's wine business.

Raw Material Alcohol

In spite of a slump in the refined sake industry, sales of raw material alcohol for refined sake products maintained the previous year's level. However, overall sales of raw material alcohol declined year on year, partly due to a decrease in the commissioned production of industrial alcohol under the jurisdiction of the Ministry of Economy, Trade and Industry.

Shochu Japanese sprit products

St. Neige sulfite-free organic wines

Shitamachi Fumi low-alcohol refreshers

Liquor and Food

Food Company

Committed to the manufacture of tasty and healthy foods, the Food Company is working to develop distinctive new products in the areas of seasonings, bakery ingredients, and health food products, based on Kyowa Hakko's core fermentation technologies. The company is also continuing to strengthen its business structure by enhancing its cost and quality competitiveness.

Company President
Hiroshi Hosoda,
Senior Managing Director

Fiscal 2001 Sales Breakdown
(Nonconsolidated basis)

Overview

Although the company worked to raise sales of mainstay products and bring new products to the market during the year, the transfer of certain food items to affiliated companies led to an overall decline in sales. However, ongoing measures to reorganize and cease the production of unprofitable products contributed to cost reductions and a return to profitability.

Operational Review

Seasonings

The continued fall in unit prices led to a decline in sales of *umami* seasonings. Higher sales of mainstay natural seasonings, including brewing seasonings, however, helped to raise overall sales.

Bakery Products and Ingredients

Sales of bakery products and ingredients were up from the previous year. Although sales of premixes were down, sales gains were recorded in yeast products, baking improvers, and flavorings.

Processed Foods

Sales declined due to a weaker performance by the company's range of freeze-dried soups and the transfer of sales of

Freeze-dried soup products

Remake Collagen and Multi-Vitamins & Minerals

Remake Choleste-block

other processed food products to affiliated companies.

Health Foods

In February 2001, the company launched Remake Choleste-block, a soft drink powder that contains a new in-house-developed ingredient, CSPHP soy-peptide. Remake Choleste-block has been approved by the Ministry of Health, Labor and Welfare as a specified health food for its efficacy in lowering levels of cholesterol. In combination with Remake Multi-Vitamin & Mineral and Remake Collagen, the company is taking steps to further promote sales of its Remake lineup of health foods.

Overseas Operations

During the year under review, Kyowa Foods Inc., of the United States, began operations at a newly constructed manufacturing facility for nucleotide-based seasonings in Missouri, while the production of natural seasonings by Wuxi Xiehe Food Co., Ltd., of China, continued smoothly. In April 2000, Kyowa Foods (H.K.) Co., Ltd., commenced operations as the company's main overseas sales base, principally handling the sale of seasonings in the Chinese and Southeast Asian markets.

Environmental Issues

In accordance with its corporate philosophy, Kyowa Hakko has formulated Health, Safety, Environment, and Product Safety Management Policies and designated them top priorities.

These fundamental management policies underpin all phases of the Company's product life cycles, from R&D and manufacture through sale, use, and disposal. In implementing these policies, we assign the highest priority to enhancing customer safety and product quality to contribute to the betterment of society.

Guided by these policies, the Kyowa Hakko Group is working to protect the environment and maintain high levels of safety by carrying out responsible care activities based on the environmental management system ISO 14001. By the end of 2000, the Company had attained ISO 14001 certification for all eight of its domestic production facilities, including Kyowa Yuka Co., Ltd.

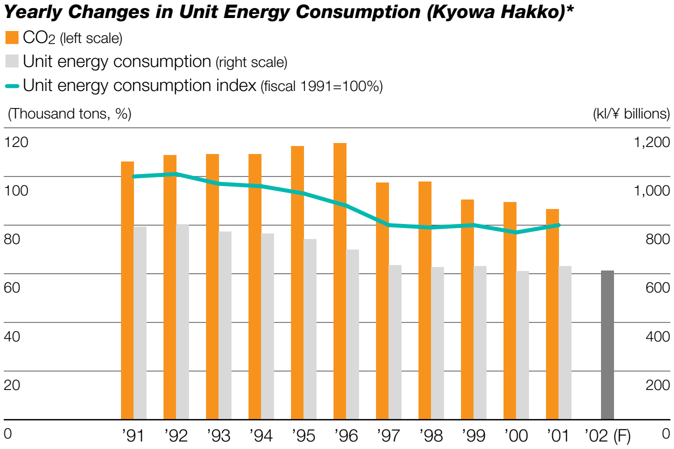
Reflecting the high standards of safety maintained throughout the entire Group, in fiscal 2001 Kyowa Yuka's Yokkaichi Plant received the Ministry of Health, Labor and Welfare's Award for Excellence in the area of safety and the Minister of Economy, Trade and Industry's Award for Excellence as a high-pressure gas production facility. The plant is still improving on its record since it attained the Ministry of Labor's category-five safety level (18 million man-hours of accident-and-disaster-free operations) in fiscal 2000.

As part of its environment-related activities, Kyowa Hakko has set Companywide targets to reduce unit energy consumption by 3% and the volume of waste disposed of at landfill sites by 50% below their 1998 levels by fiscal 2002. To this end, Kyowa Hakko is reducing the amount of waste generated from its operations through raw material conversion and recycling and the use of incineration facilities to process waste material that is difficult to recycle. These facilities already meet the Japanese government's standards for dioxin emissions that come into effect in 2002, and the Company is working to ensure they also meet government standards for operation and maintenance. Moreover, Kyowa Hakko is taking an active approach in reducing emissions of various adverse chemical substances produced from its operations.

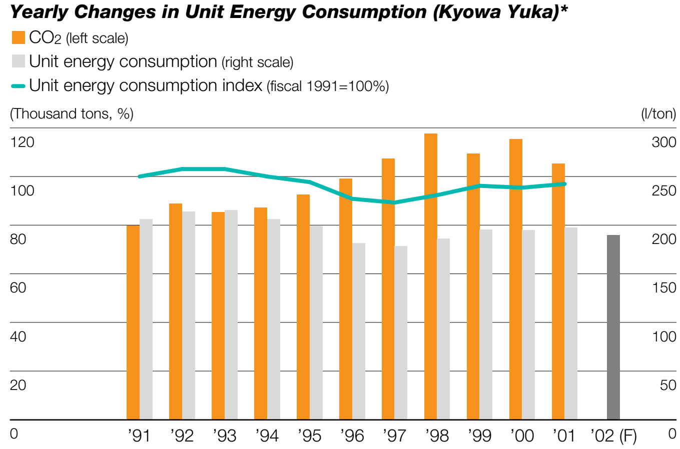
On another front, Kyowa Hakko is steadily expanding its environment-related businesses, developing materials for use in such eco-friendly products as CFC alternatives and liner sheets for refuse landfill sites. In biochemical-related products for livestock, the Company received an award from the Japanese Scientific Feeds Association for the development of feed additives that reduce the burden on the environment. We are also working on other environment-friendly concepts, such as the conversion of *shochu* distillate into animal feedstuff.

The Company carries out its manufacturing and environmental activities based on a life science approach to the appropriate use of natural resources. Two years ago, Kyowa Hakko began the publication of an annual Health, Safety, and the Environment Report to provide more information on these activities. In the report for fiscal 2000, environmental accounting methods were used for the first time, detailing the impact of the Company's operations on the environment and the volume of chemical substances emitted as a result of Kyowa Hakko's operations during the year; this report can be accessed via the Company's homepage. In the current fiscal year, Kyowa Hakko will adopt guidelines outlined in the Ministry of the Environment's Policy Report,

Yearly Changes in Unit Energy Consumption (Kyowa Hakko)*



Yearly Changes in Unit Energy Consumption (Kyowa Yuka)*



released on November 21, 2000, and work to introduce Life Cycle Assessment (LCA) for the Company's core consumer liquor product, *shochu*. In this way, Kyowa Hakko is striving to introduce even more transparency and accountability into its operations.

Quality Assurance

Kyowa Hakko not only offers a range of products and services that are superior in quality to those of its competitors but also works constantly to earn customer confidence and maintain the highest levels of customer satisfaction. Through a customer satisfaction promotion project initiated in 1998, the Company has been taking steps to raise levels of customer satisfaction even further. Now, with an emphasis on customer satisfaction management, Kyowa Hakko has implemented a Companywide program called CSMAX21 (customer satisfaction management maximization for the 21st century), which is directly led by the Company's president, Tadashi Hirata. Based on the effective use and sharing of customer information between relevant departments, from R&D and manufacturing to distribution and sales, Kyowa Hakko is working on a Companywide basis to put in place a system that is capable of responding promptly and accurately to customer requirements and demands.

To further enhance quality assurance for its products and services and improve production control and quality management systems, Kyowa Hakko maintains internationally recognized systems for quality assurance at all its manufacturing facilities, including GMP, ISO 9002, and HACCP. Also, the Company has already attained ISO 9002 certification at its Chiba, Yokkaichi, Hofu, Ube, and Moji plants.

Corporate Citizenship

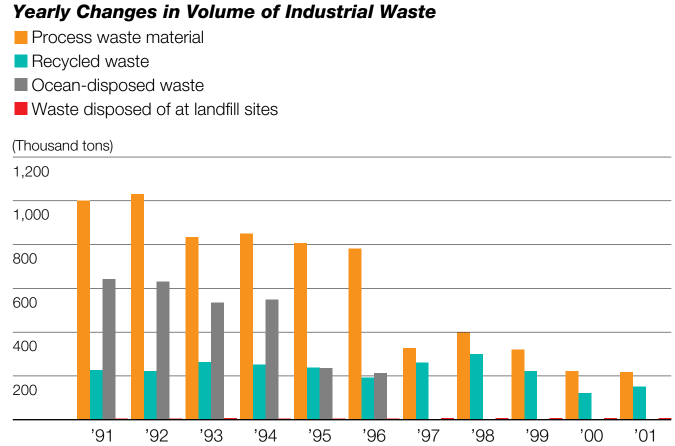
With young people in Japan become increasingly distanced from science, Kyowa Hakko, as a research-oriented company, introduced two key activities aimed at encouraging greater numbers of young people—who will play a key role in society in the 21st century—to think about and develop an interest in the field of science. These two activities, commenced in 1999 to mark the 50th anniversary of the establishment of the Company, are a national essay competition for junior high school and high school students based on the theme of "Science for a Happier 21st Century," and the support of science education for primary school students through the provision of equipment for experiments and the dispatch of researchers to provide instruction at schools. Both of these activities have been highly praised from many quarters, including educators and the participants themselves.

Also, every year since 1987, the Company has sponsored the Asahi Young Session, an annual lecture series that provides an opportunity for leaders from various fields to deliver their messages to young people. The contents of these lectures are printed in booklets for distribution to anyone desiring a copy.

The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in honor of the Company's founder, Dr. Benzaburo Kato, provides financial support for researchers for innovative research in the field of bioscience. In addition, the foundation sponsors an annual public symposium that focuses on bioscience-related themes.

* Energy consumption per unit of production is expressed on a crude-oil-conversion basis. It is not possible to make a uniform comparison of the amount of basic energy units used by Kyowa Hakko, which engages in the small-volume production of pharmaceuticals and other products, and by Kyowa Yuka, which is involved in the production of chemical products. Therefore, the amounts of unit energy consumption by Kyowa Hakko and Kyowa Yuka are listed separately.

Yearly Changes in Volume of Industrial Waste



Financial Section

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Selected Financial Data

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the Years Ended March 31, 2001, 2000, 1999, 1998 and 1997

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	1998	1997	**2001**
For the Year:						
Net sales	**¥375,610**	¥374,910	¥384,671	¥397,361	¥397,629	**$3,031,558**
Operating Income	**17,712**	21,656	23,457	34,743	33,928	**142,954**
Net income	**9,395**	11,274	6,143	13,528	12,339	**75,827**
Capital expenditures	**17,092**	21,053	24,408	24,555	19,132	**137,950**
Depreciation	**18,502**	19,153	17,673	17,113	16,701	**149,330**
R&D expenses	**28,921**	25,888	24,083	25,358	22,882	**233,422**
At Year-End:						
Total assets	**431,411**	433,958	477,729	437,271	431,774	**3,481,929**
Interest-bearing debt	**87,624**	102,870	151,489	98,282	97,786	**707,215**
Shareholders' equity	**194,693**	195,039	185,766	188,645	180,391	**1,571,372**
	Yen					U.S. Dollars (Note 1)
Per Share Data:						
Net income—basic (Note 2)	**¥ 21.6**	¥ 26.0	¥ 13.9	¥ 30.3	¥ 27.6	**$0.174**
Total shareholders' equity	**448.3**	449.1	427.8	422.6	404.2	**3.618**
Cash dividends	**7.5**	10.0	7.5	7.5	7.5	**0.061**
	%					
Financial Ratios:						
Return on assets	**2.17**	2.47	1.34	3.11	2.90	
Return on equity	**4.82**	5.92	3.28	7.33	6.96	
Equity ratio	**45.1**	44.9	38.9	43.1	41.8	

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2001	2000	1999	1998	1997	**2001**
Sales by Industry Segment						
Pharmaceuticals	**¥141,450**	¥142,338	¥143,216	N/A	N/A	**$1,141,646**
Bio-Chemicals	**52,720**	47,657	53,617	N/A	N/A	**425,504**
Chemicals	**60,659**	63,893	66,359	N/A	N/A	**489,580**
Liquor and Food	**103,353**	106,320	107,428	N/A	N/A	**834,165**
Other	**57,627**	55,166	54,330	N/A	N/A	**465,109**
Corporate, Elimination and Other	**(40,199)**	(40,464)	(40,279)	N/A	N/A	**(324,447)**
Total	**¥375,610**	¥374,910	¥384,671	¥397,361	¥397,629	**$3,031,558**
Operating Income (Loss) by Industry Segment						
Pharmaceuticals	**¥19,574**	¥23,799	¥25,618	N/A	N/A	**$157,982**
Bio-Chemicals	**(1,191)**	(2,096)	2,635	N/A	N/A	**(9,613)**
Chemicals	**(2,684)**	(1,064)	(4,264)	N/A	N/A	**(21,663)**
Liquor and Food	**919**	(1,110)	(2,430)	N/A	N/A	**7,417**
Other	**1,141**	1,390	1,719	N/A	N/A	**9,209**
Corporate, Elimination and Other	**(47)**	737	179	N/A	N/A	**(379)**
Total	**¥17,712**	¥21,656	¥23,457	¥34,743	¥33,928	**$142,954**

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥123.90 = US$1, the approximate exchange rate at March 31, 2001.
2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.
3. Due to a change in the Company's industry segmants, figures for the current segments prior to fiscal 1999 are not available (N/A).

BUSINESS PERFORMANCE

In fiscal 2001, ended March 31, 2001, the Company recorded a 0.2% increase in consolidated net sales, to ¥375.6 billion, and cost of sales rose 1.5%, to ¥251.7 billion. With the rate of increase in cost of sales exceeding that in consolidated net sales, gross profit declined 2.3%, to ¥123.9 billion. The gross profit ratio decreased 0.8 percentage points, to 33.0%.

Selling, general and administrative (SG&A) expenses edged up 1.0% year on year, to ¥106.2 billion, primarily due to higher R&D expenses. SG&A expenses as a percentage of net sales rose 0.2 percentage points, to 28.3%. Consequently, operating income declined 18.2%, to ¥17.7 billion. The ratio of operating income to net sales decreased 1.1 percentage points, to 4.7%.

Net other revenue increased significantly from the previous year's figure of ¥0.9 billion, to ¥4.2 billion. This included an extraordinary loss of ¥24.7 billion representing loss from transition adjustment of pension accounting and a pension trust fund set up gain of ¥18.1 billion from the contribution of certain investments in securities to the setting up of the trust. (Refer to explanation on page 35.)

Due to these factors, income before income taxes and minority interests declined 3.1%, to ¥21.9 billion, net income fell 16.7%, to ¥9.4 billion, and the ratio of net income to net sales decreased 0.5 percentage points, to 2.5%.

PERFORMANCE BY SEGMENT

Sales, operating expenses, and operating income for each Kyowa Hakko business segment are outlined below. The figures include inter-segment transactions.

Pharmaceuticals

Sales in Pharmaceuticals, Kyowa Hakko's core business, declined 0.6% from the previous year, to ¥141.5 billion, accounting for 34.0% of total sales. Operating expenses rose 2.8%, to ¥121.9 billion, and operating income fell 17.8% from fiscal 2000, to ¥19.6 billion.

Bio-Chemicals

Sales in Bio-Chemicals grew 10.6% year on year, to ¥52.7 billion, accounting for 12.7% of total sales. Operating expenses were held to an 8.4% increase, to ¥53.9 billion, resulting in a 43.2% reduction in the operating loss from the previous year, to ¥1.2 billion.

Chemicals

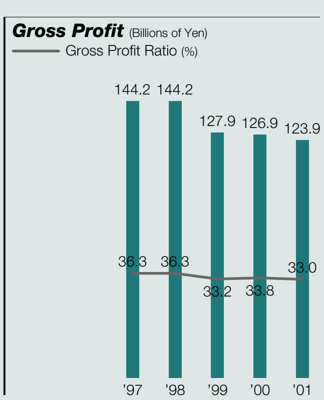
Sales in Chemicals decreased 5.1% from the previous year, to ¥60.7 billion, accounting for 14.6% of total sales. Operating expenses declined 2.5%, to ¥63.3 billion, and the operating loss increased 152.3%, to ¥2.7 billion.

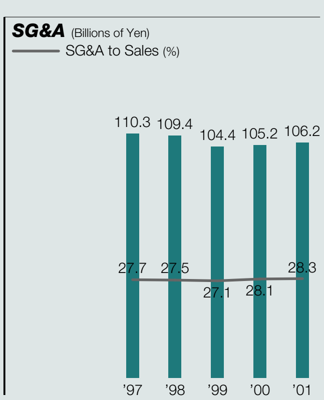
Liquor and Food

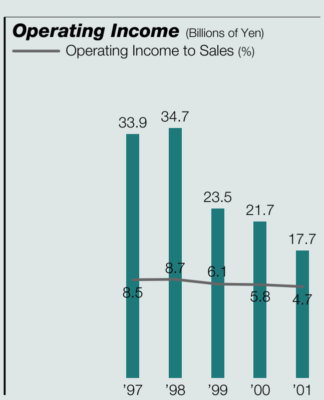
Sales in Liquor and Food declined 2.8%, to ¥103.4 billion, accounting for 24.9% of total sales. Operating expenses decreased 4.7%, to ¥102.4 billion, resulting in operating income of ¥0.9 billion, a turnaround from the previous year's operating loss of ¥1.1 billion.

Other

Sales in other businesses rose 4.5%, to ¥57.6 billion, accounting for 13.8% of total sales. Kyowa Hakko's other businesses include sales by subsidiary companies engaged in transportation, warehousing, and sales of apparatus for industry. Operating expenses increased 5.0%, to ¥56.5 billion, and operating income fell 17.9%, to ¥1.1 billion.







OVERSEAS SALES

In fiscal 2001, the Kyowa Hakko Group's overseas net sales increased 9.8% from the previous fiscal year, to ¥52.5 billion. Net sales by region are as follows:

Overseas Sales

	Billions of Yen (percentage of net sales)			
	FY2001		FY2000	
Americas	**¥22.1**	**(5.9%)**	¥19.4	(5.2%)
Europe	**13.2**	**(3.5%)**	9.8	(2.6%)
Asia	**16.5**	**(4.4%)**	18.2	(4.8%)
Other Areas	**0.7**	**(0.2%)**	0.4	(0.2%)
Total	**¥52.5**	**(14.0%)**	¥47.8	(12.8%)

CASH FLOWS

Net cash provided by operating activities in fiscal 2001 amounted to ¥28.8 billion, a decrease of ¥3.9 billion from the previous fiscal year. This decline was primarily due to the ¥3.9 billion decrease in operating income, lower working capital because of a reduction in inventories, and an increase in the amount of income taxes paid.

Net cash used in investing activities was ¥2.0 billion. This mainly consisted of ¥17.3 billion for the acquisition of property, plant and equipment, a ¥2.1 billion net increase in short-term loans receivable, and income of ¥17.3 billion in proceeds from sales of investments in securities. Proceeds from sale of securities saw a significant decrease from the previous year, declining ¥25.4 billion. As a result, the ¥23.4 billion net cash inflow in fiscal 2000 shifted to a net cash outflows of ¥2.0 billion in fiscal 2001.

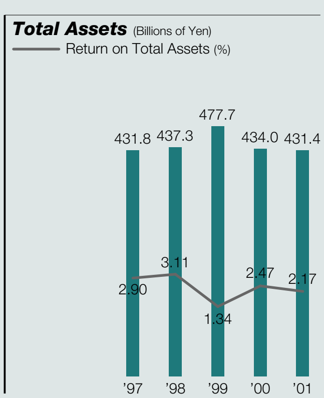
Net cash used in financing activities was ¥20.9 billion, down ¥29.2 billion from the previous fiscal year, due to expenditures associated with the issuance of commercial paper and debenture redemption. Cash outflows primarily consisted of ¥12.0 billion for the reduction of corporate bonds by debt assumption and ¥4.3 billion for cash dividend payments.

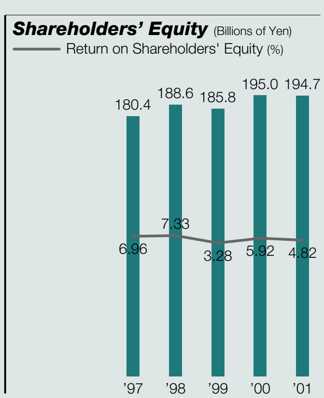
As a result of the preceding activities, cash and cash equivalents at fiscal year-end grew 24.4%, to ¥32.6 billion.

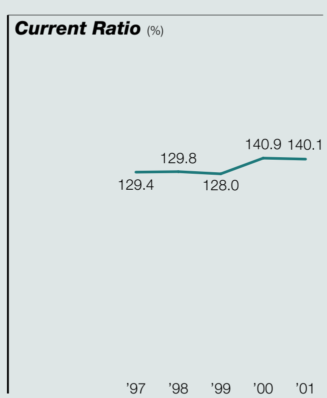
FINANCIAL POSITION

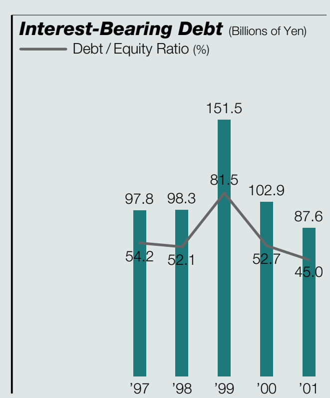
Assets

At the end of fiscal 2001, total current assets stood 6.5% higher than the previous year-end, at ¥237.9 billion. This rise was mainly attributable to increases in cash of ¥1.9 billion, in time deposits of ¥5.0 billion, and in accounts and notes receivable of ¥10.0 billion, including a rise in short-term loans to affiliates of ¥2.2 billon. Marketable securities decreased ¥2.6 billion, including a ¥1.6 billion transfer to investments, and inventories declined ¥2.8 billion. Due to these factors, total current assets increased ¥14.5 billion from the previous fiscal year-end.









At year-end, fixed assets decreased 4.8%, or ¥9.8 billion, from the end of the previous fiscal year, to ¥193.6 billion, primarily due to a reduction in investments in securities of ¥10.9 billion. This fall in investments in securities was mainly due to the setting up of an employee retirement benefit trust to cover a shortfall in pension payment obligations resulting from the adoption of the new accounting standard for retirement benefits. As a result, total assets edged down 0.6% from the previous fiscal year-end, to ¥431.4 billion.

Liabilities

Total current liabilities increased 7.1%, or ¥11.3 billion, to ¥169.8 billion at fiscal year-end. Despite declines in short-term bank loans to ¥42.2 billion and in current maturities of long-term debt to ¥0.4 billion, accounts and notes payable, trade, increased ¥7.6 billion, primarily due to the fiscal year-end settlement date falling on a non-business day. As a result of the above factors, the current ratio was 140.1%, a slight decrease from 140.9% at the previous fiscal year-end.

At the end of fiscal 2001, long-term debt totaled ¥45.0 billion, a decrease of ¥12.2 billion, or 21.4%, from the previous fiscal year-end. The primary reason for this decline was a ¥12.0 billion decrease due to the implementation of debt assumption for the 1.75% bond due 2003. Thus, interest-bearing debt fell 14.8% from the previous fiscal year-end, to ¥87.6 billion.

Shareholders' Equity

Total shareholders' equity edged down 0.2% from the end of fiscal 2000, to ¥194.7 billion. The equity ratio rose slightly, from 44.9% at the previous fiscal year-end to 45.1%. The debt/equity ratio[1] saw a significant decrease, from 52.7% at the previous fiscal year-end to 45.0%.

PER SHARE DATA

In the fiscal year under review, net income per share decreased from ¥25.96 in fiscal 2000 to ¥21.64. Diluted net income per share was ¥21.59, down from ¥25.86. Shareholders' equity per share declined from ¥449.15 to ¥448.35. Cash dividends per share for fiscal 2001 were ¥7.50. Cash dividends for the previous fiscal year were ¥10.00 per share, comprising a normal dividend payment of ¥7.50 per share and a ¥2.50 per share dividend payment to commemorate the 50th anniversary of the establishment of the Company.

MANAGEMENT INDICES

Return on shareholders' equity (ROE) declined to 4.82%, from 5.92% in the previous fiscal year, and return on assets (ROA) decreased from 2.47% to 2.17%. The Company's medium-term management plan set an ROA target of 3.2%, and Kyowa Hakko is taking steps to put in place a more efficient management structure in order to achieve this target. As the figures for fiscal 2001 show, however, the benefits of these measures are yet to be fully realized. The Company will therefore continue to work toward creating an even more efficient corporate framework through a reduction of assets and the establishment of a strong profit-generating structure. EBITDA[2] for fiscal 2001 was ¥43.5 billion, down 2.6% from ¥44.5 billion in fiscal 2000.

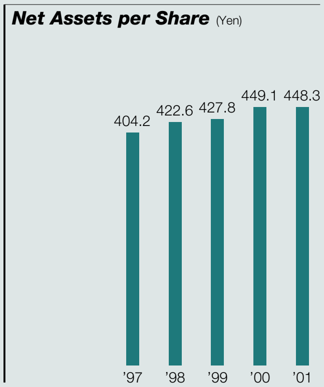
CAPITAL EXPENDITURES

The Kyowa Hakko Group is investing continuously with the goals of enhancing and rationalizing production facilities and promoting R&D activities. Capital expenditures during fiscal 2001 dropped

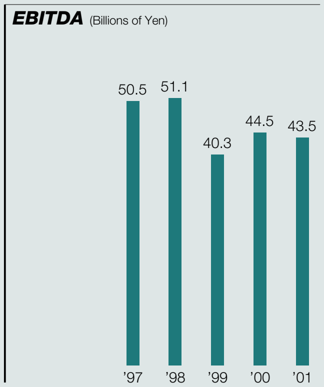
[1] *Debt/equity ratio = interest-bearing debt (short-term bank loans + current portion of long-term debt + long-term debt) / shareholders' equity*

[2] *EBITDA = Income before income taxes and minority interests + interest expenses + depreciation*

Net Assets per Share (Yen)

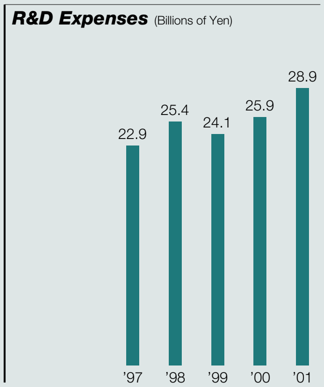


EBITDA (Billions of Yen)



Capital Expenditures (Billions of Yen)

R&D Expenses (Billions of Yen)



18.8% from the previous fiscal period, to ¥17.1 billion, and depreciation declined 3.4%, to ¥18.5 billion. Free cash flow decreased 8.9%, to ¥27.8 billion. The Kyowa Hakko Group's capital expenditures remained within the range of depreciation. A breakdown of capital expenditures and depreciation by business segment is as follows:

	Billions of Yen			
	Capital Expenditures		Depreciation	
	FY2001	FY2000	**FY2001**	FY2000
Pharmaceuticals	**¥ 4.4**	¥ 4.9	**¥ 5.3**	¥ 5.5
Bio-Chemicals	**4.1**	7.1	**4.9**	5.0
Chemicals	**4.2**	4.3	**4.8**	4.9
Liquor and Food	**3.8**	4.3	**2.6**	2.9
Other / Eliminations	**0.6**	0.5	**0.9**	0.9
Total	**¥17.1**	¥21.1	**¥18.5**	¥19.2

RETIREMENT BENEFITS ACCOUNTING STANDARD

From fiscal 2001, Kyowa Hakko adopted a new accounting standard for retirement benefits. At the beginning of the fiscal year, the Kyowa Hakko Group's pension benefit obligations amounted to ¥104.6 billion. The shortfall in pension fund due to the change in the accounting standard, after the deduction of pension fund assets of ¥62.8 billion and deductible reserves of ¥17.1 billion, amounted to ¥24.7 billion. To cover this shortfall, the Company contributed certain investments in securities, with a book value of ¥7.3 billion, to the setting up of a ¥25.4 billion pension trust and recorded the ¥24.7 unrecognized difference arising from adopting the new standard as an extraordinary loss. Concurrently, Kyowa Hakko declared a pension trust fund set up gain of ¥18.1 billion. The introduction of the accounting standard resulted in higher pension fund costs of ¥0.4 billion and a reduction in net income before income taxes and minority interests of ¥7.0 billion.

At the end of fiscal 2001, the value of the pension plan assets, including the Company's pension trust fund assets, was down ¥73.5 billion from the previous fiscal year-end, reflecting the effects of the depressed stock market. The pension benefit obligations increased to ¥108.8 billion. The reserve for retirement benefits at fiscal year-end amounted to ¥17.2 billion. The net shortfall at year-end of ¥18.1 billion will be equally amortized over 10 years from the current fiscal year.

R&D EXPENSES

R&D expenses rose 11.7% from the previous fiscal year, to ¥28.9 billion. R&D expenses in Pharmaceuticals amounted to ¥24.2 billion, accounting for 83.7% of the total. R&D expenses are equivalent to 7.7% of consolidated net sales, while in Pharmaceuticals they account for 17.1% of non-consolidated segment sales.

STATEMENT ON THE FINE IMPOSED BY THE EUROPEAN COMMISSION

On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within EEA (European Economic Area) prior to June, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of fine. The final amount of the fine has not yet been determined. In the consolidated balance sheets, 1,120 thousand Euro (¥122 million; $988 thousand) was recognized under "accounts payable" based on the calculation method of the fine which the European Commission had previously adopted.

NOTE TO THE MANAGEMENT'S DISCUSSION AND ANALYSIS

Forecasts contained in the 2001 Annual Report represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations.

Consolidated Balance Sheets

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries   As at March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
ASSETS	**2001**	2000	**2001**
Current Assets:			
Cash	**¥ 11,724**	¥ 9,781	**$ 94,625**
Time deposits	**19,349**	14,355	**156,166**
Marketable securities (Notes 2 and 5)	**1,999**	4,560	**16,134**
Accounts and notes receivable:			
Trade	**127,858**	122,776	**1,031,945**
Unconsolidated subsidiaries and affiliates	**9,875**	4,955	**79,701**
Other	**1,935**	1,897	**15,618**
	139,668	129,628	**1,127,264**
Inventories	**57,574**	60,408	**464,681**
Deferred tax assets (Note 8)	**3,996**	3,122	**32,252**
Other current assets	**3,922**	2,219	**31,654**
Less: allowance for doubtful accounts	**(380)**	(720)	**(3,067)**
Total current assets	**237,852**	223,353	**1,919,709**
Investments and Advances:			
Investments in securities (Notes 2 and 5)	**19,466**	30,334	**157,110**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**18,633**	17,181	**150,387**
Long-term loans to employees, mostly for housing	**135**	1,194	**1,090**
Long-term loans and other investments	**8,012**	9,158	**64,665**
Less: reserve for write-down of investments in securities	**(87)**	(87)	**(702)**
Less: allowance for doubtful accounts	**(746)**	(599)	**(6,021)**
	45,413	57,181	**366,529**
Property, Plant and Equipment:			
Buildings and structures	**135,119**	130,582	**1,090,549**
Machinery and equipment	**260,276**	244,296	**2,100,694**
	395,395	374,878	**3,191,243**
Less: accumulated depreciation	**(281,502)**	(269,930)	**(2,272,010)**
	113,893	104,948	**919,233**
Land	**23,813**	22,792	**192,195**
Construction in progress	**1,861**	11,685	**15,020**
	139,567	139,425	**1,126,448**
Deferred Tax Assets (Note 8)	**5,085**	2,919	**41,041**
Other Assets	**3,494**	3,784	**28,202**
Translation Adjustments (Note 2)	**—**	7,296	**—**
	¥ 431,411	¥ 433,958	**$ 3,481,929**

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 4) 2001
Current Liabilities:			
Short-term bank loans (Note 6)	**¥ 42,152**	¥ 42,876	**$ 340,210**
Current portion of long-term debt (Note 6)	**448**	2,740	**3,616**
Accounts and notes payable:			
Trade	**49,013**	41,453	**395,585**
Unconsolidated subsidiaries and affiliates	**13,481**	12,592	**108,805**
Construction and acquisition of properties	**3,574**	4,082	**28,846**
Other	**23,352**	21,051	**188,475**
	89,420	79,178	**721,711**
Income taxes payable	**10,484**	6,828	**84,617**
Employees' savings deposits	**12,989**	11,883	**104,835**
Reserve for accrued sales returns	**414**	197	**3,341**
Reserve for accrued sales rebates	**1,264**	902	**10,202**
Reserve for accrued sales promotion expenses	**608**	498	**4,907**
Guarantee deposits from customers	**8,474**	7,950	**68,394**
Other current liabilities	**3,568**	5,490	**28,797**
Total current liabilities	**169,821**	158,542	**1,370,630**
Long-Term Debt (Note 6)	**45,024**	57,254	**363,390**
Deferred Tax Liabilities (Note 8)	**550**	—	**4,439**
Reserve for Retirement Benefits:			
Employees (Notes 2 and 9)	**17,249**	17,328	**139,217**
Directors and corporate auditors	**942**	986	**7,603**
Other Non-Current Liabilities	**766**	807	**6,182**
Minority Interests in Consolidated Subsidiaries	**2,366**	4,002	**19,096**
Commitments and Contingent Liabilities (Note 12)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 987,900,000 shares at March 31, 2001 and 2000			
Issued: 434,243,555 shares at March 31, 2001 and 2000	**26,745**	26,745	**215,860**
Additional paid-in capital	**43,180**	43,180	**348,507**
Retained earnings (Note 15)	**129,694**	125,114	**1,046,763**
	199,619	195,039	**1,611,130**
Translation Adjustments (Note 2)	**(4,926)**	—	**(39,758)**
Total shareholders' equity	**194,693**	195,039	**1,571,372**
	¥431,411	¥433,958	**$3,481,929**

Consolidated Statements of Income

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2001	2000	1999	**2001**
Net Sales (Note 14)	**¥375,610**	¥374,910	¥384,671	**$3,031,558**
Cost of Sales	**251,665**	248,038	256,807	**2,031,195**
Gross profit	**123,945**	126,872	127,864	**1,000,363**
Selling, General and Administrative Expenses (Note 11)	**106,233**	105,216	104,407	**857,409**
Operating income (Note 14)	**17,712**	21,656	23,457	**142,954**
Other Revenue (Expenses):				
Interest and dividend income	**1,208**	1,585	1,630	**9,750**
Interest expenses	**(3,134)**	(2,724)	(3,045)	**(25,295)**
Write-down of marketable securities	**(137)**	(186)	(1,030)	**(1,106)**
Gain (loss) on sale of marketable securities	**—**	377	(130)	**—**
Gain on sale of investment in securities	**12,201**	50	306	**98,475**
Foreign exchange gain (loss)	**588**	(944)	(782)	**4,746**
Insurance premium received	**432**	340	280	**3,487**
Gain on sale of property, plant and equipment	**92**	2,818	3,747	**743**
Provision for allowance for loss on guarantees	**—**	—	(215)	**—**
Additional premium to welfare annuity fund	**—**	(1,053)	(1,389)	**—**
Exchange loss arising from investment in kind of subsidiaries	**—**	—	(3,782)	**—**
Gain on settlement of lawsuit	**—**	—	520	**—**
Write-down of golf club membership	**(663)**	(328)	—	**(5,351)**
Loss from transition adjustment of pension accounting	**(24,729)**	—	—	**(199,588)**
Equity in earnings of affiliates	**748**	1,137	784	**6,037**
Gain from contribution of securities to pension fund	**18,127**	—	—	**146,303**
Other, net	**(574)**	(152)	(740)	**(4,634)**
	4,159	920	(3,846)	**33,567**
Income before income taxes and minority interests	**21,871**	22,576	19,611	**176,521**
Income Taxes: (Note 8)				
Current	**16,162**	11,894	11,473	**130,444**
Deferred	**(3,424)**	(402)	1,995	**(27,635)**
	12,738	11,492	13,468	**102,809**
	9,133	11,084	6,143	**73,712**
Minority Interests in Earnings of Consolidated Subsidiaries	**262**	190	0	**2,115**
Net income	**¥ 9,395**	¥ 11,274	¥ 6,143	**$ 75,827**
	Yen			U.S. Dollars (Note 4)
Per Share Data:				
Net income—basic	**¥21.6**	¥26.0	¥13.9	**$0.174**
Net income—diluted (*)	**21.6**	25.9	—	**0.174**
Cash dividends	**7.5**	10.0	7.5	**0.061**
Weighted Average Number of Shares (thousands of shares)	**434,244**	434,244	441,906	

** Diluted net income per share for fiscal 1999 is not disclosed, because there were anti-dilutive effects.*
The accompanying notes are an integral part of the statements.

Consolidated Statements of Shareholders' Equity

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries For the years ended March 31, 2001, 2000 and 1999

	Number of shares of common stock (thousands)	Millions of Yen				
		Common stock	Additional paid-in capital	Legal reserve	Special reserves	Retained earnings
Balance at March 31, 1998	446,344	¥26,745	¥43,180	¥6,520	¥1,766	¥110,434
Net income for the year ended March 31, 1999	—	—	—	—	—	6,143
Transfer to retained earnings	—	—	—	(6,520)	(1,766)	8,286
Cash dividends	—	—	—	—	—	(1,674)
Directors' and corporate auditors' bonuses	—	—	—	—	—	(148)
Interim cash dividends	—	—	—	—	—	(1,659)
Increase due to additional consolidation of subsidiaries	—	—	—	—	—	981
Increase due to elimination of subsidiaries	—	—	—	—	—	22
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	544
Retirement of shares of common stock	(12,100)	—	—	—	—	(7,089)
Other	—	—	—	—	—	1
Balance at March 31, 1999	434,244	26,745	43,180	—	—	115,841
Net income for the year ended March 31, 2000	—	—	—	—	—	11,274
Previous period tax effect adjustment	—	—	—	—	—	84
Cash dividends	—	—	—	—	—	(1,628)
Directors' and corporate auditors' bonuses	—	—	—	—	—	(130)
Interim cash dividends	—	—	—	—	—	(1,628)
Increase due to additional consolidation of subsidiaries	—	—	—	—	—	453
Increase due to additional application of equity method	—	—	—	—	—	539
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	—	—	309
Balance at March 31, 2000	434,244	26,745	43,180	—	—	125,114
Net income for the year ended March 31, 2001	**—**	**—**	**—**	**—**	**—**	**9,395**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(2,714)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**—**	**—**	**(82)**
Interim cash dividends	**—**	**—**	**—**	**—**	**—**	**(1,628)**
Increase due to additional application of equity method	**—**	**—**	**—**	**—**	**—**	**42**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**213**
Decrease due to cumulative effect of deferred tax accouting adopted by Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**(643)**
Other	**—**	**—**	**—**	**—**	**—**	**(3)**
Balance at March 31, 2001	**434,244**	**¥26,745**	**¥43,180**	**¥ —**	**¥ —**	**¥129,694**

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 4)				
		Common stock	Additional paid-in capital	Legal reserve	Special reserves	Retained earnings
Balance at March 31, 2000	**434,244**	**$215,860**	**$348,507**	**$ —**	**$ —**	**$1,009,798**
Net income for the year ended March 31, 2001	**—**	**—**	**—**	**—**	**—**	**75,827**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(21,905)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**—**	**—**	**(662)**
Interim cash dividends	**—**	**—**	**—**	**—**	**—**	**(13,140)**
Increase due to additional application of equity method	**—**	**—**	**—**	**—**	**—**	**339**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**1,719**
Decrease due to cumulative effect of deferred tax accouting adopted by Mexican subsidiary	**—**	**—**	**—**	**—**	**—**	**(5,190)**
Other	**—**	**—**	**—**	**—**	**—**	**(23)**
Balance at March 31, 2001	**434,244**	**$215,860**	**$348,507**	**$ —**	**$ —**	**$1,046,763**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries   For the year ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 21,871**	¥ 22,576	**$ 176,521**
Adjustments to reconcile income before income taxes and minority interests to net cash used by operating activities:			
Depreciation and amortization	**18,502**	19,376	**149,330**
Equity in earnings of affiliates	**(748)**	(1,137)	**(6,037)**
Write-down of marketable securities	**137**	186	**1,106**
Increase in reserve for retirement benefits	**25,329**	131	**204,431**
Gain from contribution of securities to pension fund	**(18,127)**	—	**(146,303)**
Decrease in reserve for retirement benefits to directors and corporate auditors	**(44)**	(178)	**(355)**
Decrease in allowance for doubtful accounts	**(202)**	(437)	**(1,630)**
Gain on sale of securities	**(12,201)**	(428)	**(98,475)**
Loss (Gain) on sale/disposal of property, plant and equipment	**423**	(1,803)	**3,414**
Interest and dividend income	**(1,208)**	(1,593)	**(9,750)**
Interest expenses	**3,134**	2,741	**25,295**
(Increase) Decrease in trade receivables	**(6,190)**	2,738	**(49,960)**
Decrease in inventories	**3,061**	1,513	**24,705**
Increase (Decrease) in trade payables	**7,910**	(2,858)	**63,842**
Payment of bonuses to directors and corporate auditors	**(90)**	(138)	**(726)**
Increase (Decrease) in consumption tax payables	**134**	(453)	**1,082**
Others	**1,565**	3,030	**12,630**
	43,256	43,266	**349,120**
Interest and dividend received	**1,345**	1,778	**10,856**
Interest expenses paid	**(3,297)**	(2,763)	**(26,610)**
Income taxes paid	**(12,515)**	(9,544)	**(101,009)**
Net cash provided by operating activities	**28,789**	32,737	**232,357**
Cash flows of investing activities:			
Increase in time deposits	**(538)**	(615)	**(4,342)**
Decrease in time deposits	**989**	2,903	**7,982**
Proceeds from sale of marketable securities	**—**	42,480	**—**
Acquisition of property, plant and equipment	**(17,327)**	(22,501)	**(139,847)**
Proceeds from sale of property, plant and equipment	**1,137**	2,145	**9,177**
Acquisition of investments in securities	**(863)**	(505)	**(6,965)**
Proceeds from sale of investments in securities	**17,323**	302	**139,814**
Additional investments in consolidated subsidiaries	**(186)**	—	**(1,501)**
Net increase in short-term loans receivable	**(2,190)**	(164)	**(17,676)**
Increase in long-term loans receivable	**(222)**	(115)	**(1,792)**
Decrease in long-term loans receivable	**730**	787	**5,892**
Others	**(844)**	(1,295)	**(6,811)**
Net cash (used in)/provided by investing activities	**(1,991)**	23,422	**(16,069)**
Cash flows of financing activities:			
Net proceeds from short-term debt	**(1,606)**	461	**(12,962)**
Net increase in commercial paper	**—**	(16,000)	**—**
Proceeds from long-term debt	**—**	2,630	**—**
Repayment of long-term debt	**(2,929)**	(4,047)	**(23,640)**
Redemption for bonds (Note 6)	**(12,000)**	(29,848)	**(96,852)**
Dividends paid	**(4,330)**	(3,262)	**(34,948)**
Dividends paid to minority	**(11)**	(11)	**(89)**
Others	**5**	—	**40**
Net cash used in financing activities	**(20,871)**	(50,077)	**(168,451)**
Effect of exchanges on cash and cash equivalents	**437**	(339)	**3,527**
Increase in cash and cash equivalents	**6,364**	5,743	**51,364**
Cash and cash equivalents at the beginning of the year	**26,215**	20,433	**211,582**
Cash and cash equivalents at the beginning of the year acquired from a newly consolidated subsidiary	**21**	39	**169**
Cash and cash equivalents at the end of the year	**¥ 32,600**	¥ 26,215	**$ 263,115**

Relation between cash and cash equivalents at year-end and the account booked in the balance sheet

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2001	2000	**2001**
Cash and time deposits	**¥31,073**	¥24,136	**$250,791**
Time deposits whose maturity periods exceed three months	**(472)**	(920)	**(3,810)**
Marketable securities with original maturities of three months or less	**1,999**	2,999	**16,134**
	¥32,600	¥26,215	**$263,115**

The accompanying notes are an integral part of the statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by KYOWA HAKKO KOGYO CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter totally referred to as the "Companies"). The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards.

Certain items presented in the consolidated financial statements in Japan have been reclassified for the convenience of readers outside Japan. The consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Consolidated Statements of Cash Flows are required to be included in the accompanying consolidated financial statements with effect from fiscal 2000 due to the amendment of related regulations.

The Company's fiscal year is from April 1 to March 31. Therefore, "fiscal 2001" begins on April 1, 2000 and ends on March 31, 2001.

2. ACCOUNTING CHANGES

(1) Reserve for Retirement Benefits to Employees

Until fiscal 2000, the Company provided a reserve for retirement benefits to employees at an amount equivalent to 40 per cent. of the liabilities which the Company would have been required to pay if all eligible employees had retired at the balance sheet date.

Effective from fiscal 2001, the Company and its domestic consolidated subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the reserve for retirement benefits as of March 31, 2001 represents the estimated present value of the projected benefit obligation in excess of the fair value of the plan assets except for, as permitted under the new standard, unrecognized actuarial differences, which are amortized on a straight-line basis over the period of ten years from the year after they occur. The unrecognized difference arising from adopting the new standard (the "transition adjustment") of ¥24,729 million ($199,588 thousand) at April 1, 2000 is totally expensed. As a result of adopting the new standard, the net expense relating to the retirement benefits for fiscal 2001 has increased by ¥406 million ($3,277 thousand), and income before income taxes and minority interests has decreased by ¥6,968 million ($56,239 thousand).

In addition, the Company has begun to operate a pension trust for the sole benefit of the Company's retirement benefit plan participants from fiscal 2001. Pension trust contributions are made to trust funds through shares, the Company holds. The book value and fair market value of those shares were ¥7,315 million ($59,040 thousand) and ¥25,442 million ($205,343 thousand) at the date of establishment of the pension fund, respectively.

(2) Accounting for Financial Instruments

Until fiscal 2000, securities with market quotations were valued at the lower of cost or market value and securities without market quotations were valued at cost, cost being determined using the moving average method. Also, until fiscal 2000, no hedge accounting had been adopted.

Effective from fiscal 2001, the Company and its domestic consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adoption of the new standard, income before income taxes and minority interests decreased by ¥486 million ($3,923 thousand) as compared with the amount which would have been reported, had the previous standard been applied consistently.

Derivatives

Under the new standard, all derivatives are stated at fair value, with changes in fair value included in net income for the year when incurred, except for derivatives that are designated as "hedge instruments", see "Hedge Accounting" described below.

Securities

a) Held-to-Maturity Debt Securities

Debt securities, which the Company intends to hold to maturity, are stated at cost after accounting for the premium or discount on acquisition and are being amortized or accumulated over the period to maturity.

b) Available-for-Sale Securities

The new standard recommends that available-for-sale securities, for which market value is available, should be valued at fair market value from the fiscal year beginning April 1, 2001. However, adoption from fiscal 2001 is optional. The Company did not carry out a revaluation this fiscal year. The total carrying value of such securities was ¥12,131 million ($97,910 thousand), total market value of which was ¥41,407 million ($334,197 thousand). The resulting difference of ¥29,276 million ($236,287 thousand) was attributed to unrealized gains of ¥17,003 million ($137,231 thousand), deferred tax liabilities of ¥12,205 million ($98,507 thousand) and minority interests of ¥68 million ($549 thousand), respectively.

In cases where the fair value of securities declines significantly and such impairment of the value is not deemed temporary, those securities are written down to fair value and the resulting losses are charged to income for the year.

Under the new standard, debt securities classified as "held-to-maturity debt securities" and "available-for-sale securities" due within one year are presented as "current" and all the other securities are presented as "non-current". The securities held by the Company and its domestic consolidated subsidiaries have been reclassified as of April 1, 2000. As a result of such reclassifications, the amount of the securities in the current portfolio has decreased by ¥1,560 million ($12,591 thousand).

Hedge Accounting

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income for the same year during which the gains or losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Companies are principally currency swap and forward exchange contracts for receivables/payables denominated in foreign currency while interest rate swap and option contracts are utilized for borrowing, including bonds payable.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' risk of fluctuation in interest and exchange rates. Therefore, the Companies' purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

See Note 10.

(3) Foreign Currency Translation

Until fiscal 2000, short-term balances denominated in foreign currencies translated using a spot rate prevailing at the year-end while other balances are translated at a historical exchange rate. Effective from fiscal 2001, the Company and domestic consolidated subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at the year-end. Resulting gains and losses are charged or credited to income for the year. The adoption of the new accounting standard had no material impact on the accompanying consolidated financial statements.

The new standard also amended the method of translating financial statements in foreign currencies of overseas subsidiaries and affiliates. Under the new standard, assets and liabilities of the overseas subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the respective year-end of overseas subsidiaries and affiliates. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rate. Profit and loss accounts for the year are translated into Japanese yen at the average exchange rate during the year. In order to balance total debits and credits of the translated statements, an account titled "Translation Adjustments" was set up and is shown under the "Shareholders' Equity" and "Minority Interests in Consolidated Subsidiaries". Had the new accounting standard applied to the prior year, "Shareholders' Equity" and "Minority Interests in Consolidated Subsidiaries" would have decreased by ¥6,114 million ($49,346 thousand) and ¥1,182 million ($9,540 thousand), respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

The Company had 54 subsidiaries as at March 31, 2001 (56 as at March 31, 2000). The consolidated financial statements include the accounts of the Company and 29 subsidiaries in fiscal 2001 (28 for fiscal 2000). As a result of an increase in its materiality to the consolidated accounts, Kyowa Foods (H.K.) Co., Ltd. has been accounted for as a consolidated subsidiary for the first time in fiscal 2001.

Major subsidiaries are listed on the next page:

The remaining 25 (28 as at March 31, 2000) unconsolidated subsidiaries, whose combined total assets, net sales, net income and retained earnings are not significant in relation to those of the consolidated financial statements of the Companies, have been excluded from consolidation.

The accounts of 10 overseas consolidated subsidiaries, Biokyowa Inc., Kyowa Hakko U.S.A., Inc., Kyowa Foods Inc. and Kyowa America, Inc. (all incorporated in the U.S.A.), Kyowa Hakko Europe GmbH (incorporated in Germany), Fermentaciones Mexicanas, S.A. de C.V. (incorporated in Mexico and hereinafter referred to as "Fermex"), Agroferm Hungarian-Japanese Fermentation Industry Ltd. (incorporated in Hungary and referred to as "Agroferm"), Kyowa Hakko (H.K.) Co., Ltd. and Kyowa Foods (H.K.) Co., Ltd. (incorporated in China) and Kyowa Italiana Farmaceutici S.R.L. (incorporated in Italy), are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in their respective countries. Although certain differences exist in the accounting principles adopted by the overseas subsidiaries, essentially no adjustments have been made to their accounts in order to conform to Japanese accounting principles in the accompanying consolidated financial statements.

The accounts of Fermex are based on inflation accounting as generally accepted in Mexico. Such inflation accounting includes the revaluation of fixed assets and the restatement of shareholders' equity adjusted by the National Consumer Price Index growth factor and the recognition of the effect of inflation on monetary assets and liabilities.

Financial statements of all overseas subsidiaries are prepared on a calender year basis. For all domestic consolidated subsidiaries, they adopt a March 31 fiscal year end basis.

Significant transactions that occurred between January 1 and March 31 are reflected in the accompanying consolidated financial statements.

Name of company	Direct and indirect equity ownership percentage	Capital stock (Millions)
Domestic subsidiaries		
Kyowa Yuka Co., Ltd.	94.0%	¥5,300
Kyowa Medex Co., Ltd.	100.0	750
Mohan Medicine Research Institute	83.0	223
Sainte Neige Wine Co., Ltd.	95.2	125
Kyowa F.D. Foods Co., Ltd.	100.0	100
Miyako Kagaku Co., Ltd.	52.9	111
Chiyoda Kaihatsu Co., Ltd.	100.0	113
Overseas subsidiaries		
Biokyowa Inc. (U.S.A.)	100.0	$20
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	75.0	N. Peso 31
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	100.0	HuF 3,506
Kyowa Hakko U.S.A., Inc. (U.S.A)	100.0	$1
Kyowa Hakko Europe GmbH (Germany)	100.0	DM 2
Kyowa America, Inc. (U.S.A.)	100.0	$48

Elimination of investments in shares of consolidated subsidiaries, together with the underlying equity in net assets of such subsidiaries, is made to include the relevant equity in the net income (loss) of subsidiaries subsequent to the date of acquisition in the consolidated statements of income. Until fiscal 1999, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, if any, had been charged or credited to income, as the case may be, in the year in which it had occured. Effective from fiscal 2000, such difference has been amortized using a method, which the Company determined (based on the specific circumstances of each consolidated subsidiary) due to the amendment of related accounting standard.

All assets and liabilities of consolidated subsidiaries are revalued to fair market value as of the date of establishment of the control.

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 25 (28 at March 31, 2000) unconsolidated subsidiaries and 30 (29 at March 31, 2000) affiliates. The equity method is applied to the investments in 7 (5 at March 31, 2000) major domestic affiliates since the investments in the remaining unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements. Due to an increase in their materiality to the consolidated accounts, the equity method was adopted for investments in J-PLUS Co., Ltd. and Zenmi Foods Co., Ltd. from fiscal 2001.

The seven affiliates are accounted for using the equity method. Major affiliates are as follows;

Name of company	Equity ownership percentage	Capital stock (Millions of Yen)
Janssen-Kyowa Co., Ltd.	40.0%	¥1,000
J-PLUS Co., Ltd.	50.0	480

Differences, arising from application of the equity method to unconsolidated subsidiaries and affiliates, between the cost of the investment and the amount of the underlying equity in net assets, are fully amortized in the year when incurred.

The investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost or less.

(3) Inventories Valuation

Inventories are valued at cost, cost being determined mainly by using the gross average cost method.

(4) Securities Valuation

Held-to maturity debt securities are valued at amortized or accumulated cost.

Available-for-sale securities are valued at cost, cost being determined using the moving average method.

See Note 2 and Note 5.

(5) Property, Plant and Equipment

Depreciation is computed mainly using the declining-balance method.

The Company and its domestic consolidated subsidiaries compute depreciation expense for buildings (other than related equipment and leasehold improvements) acquired on and after April 1, 1998 using the straight-line method.

The range of useful lives are principally as follows:

Buildings and structures:	15-50 years
Machinery and equipment:	4-15 years

(6) Reserves and Allowances

Allowance for Doubtful Accounts

An allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured on collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency.

Reserve for Accrued Sales Returns

A reserve for accrued sales returns is provided on the basis of the maximum amount deductible under Japanese income tax laws. The amount of the reserve is determined based on the past years' experience of the Companies. The Companies also provide an estimated amount to cover possible losses from returns of certain products.

Reserve for Accrued Sales Rebates

A reserve for accrued sales rebates is provided at an amount determined based on the balance of receivables for pharmaceutical products from the sales agents and distributors at the year-end and the estimated rebate rates to be applied under the agreements.

Reserve for Accrued Sales Promotion Expenses

A reserve for accrued sales promotion expenses is provided at an amount equivalent to probable sales promotion expenses related to pharmaceutical inventories held by distributors. The amount of the reserve is determined based on the balance of inventories at year-end and the Companies' past experience ratio for such expenses.

Reserve for Write-Down of Investments in Securities

A reserve for the write-down of investments in securities is measured on the basis of the financial positions of the investees, such as subsidiaries and other investments, and provided for any decline in value of those investments.

Reserve for Retirement Benefits to Employees

A reserve for retirement benefits to employees is provided at an amount equal to the present value of the projected benefit obligation less fair value of the plan assets at the year-end.

See Note 2 and Note 9.

Reserve for Retirement Benefits to Directors and Corporate Auditors

A reserve for retirement benefits to directors, including executive directors, and corporate auditors is provided in accordance with the Company's bylaws.

(7) Foreign Currency Translation

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at a spot rate prevailing at the year-end. Resulting translation gains or losses are charged or credited to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the spot rate prevailing at the respective year-end of overseas subsidiaries, while income and expenses are translated at an annual average rate. Resulting translation adjustments are included in "minority interests in consolidated subsidiaries" and "shareholders' equity".

See Note 2.

(8) Accounting for Leases

Finance leases, other than those for which the ownership of the leased assets is considered to be transferred to lessees, are accounted for as operating leases.

See Note 7.

(9) Accounting for Hedging

The Company defers gains /losses on revaluation of hedging instruments to fair value as assets or liability until the gains or losses are realized.

See Note 2 and Note 10.

(10) Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The amended regulation for preparation of consolidated financial statements prescribes that, effective from fiscal 2000, income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements. The cumulative effect of this accounting change at the beginning of fiscal 2000 was credited to retained earnings.

Until fiscal 1999, income taxes were provided using the deferral method for consolidation purpose.

See Note 8 for details of deferred tax assets/liabilities.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits, which are able to be withdrawn on demand at any time, and short-term investments with an original maturity of three months or less, which are readily convertible into cash and considered to represent a low risk of market price fluctuation.

(12) Accounting for Consumption Taxes

In Japan, consumption taxes are imposed at a flat rate of 5 per cent on all domestic consumption of goods and services, with certain exemptions. Consumption taxes imposed on the Companies' domestic sales to customers are withheld by the Companies at the time of sale and are paid to the national government and the local public body subsequently. The consumption tax withheld upon sale and the consumption tax paid by the Company and its domestic consolidated subsidiaries on the purchases of goods and services are not included in the related amounts in the accompanying consolidated statements of income.

(13) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year.

As is customary in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year, which constitutes a part of the appropriation mentioned above.

(14) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share represent dividends declared as applicable to the respective period.

(15) Reclassification

Certain fiscal 2000 and 1999 figures are reclassified to conform to the current year representation.

(16) Additional Information

The fiscal year-end of March 31, 2001 fell on a bank holiday. As a result, notes receivable/payable are not accounted for as settled until the date of exchange. Therefore, the following items were included in the accompanying consolidated balance sheets as of March 31, 2001 and remained unsettled.

	Millions of Yen	Thousands of U.S. Dollars
Notes receivable	¥6,247	$50,420
Notes payable	3,606	29,104
Notes payable for construction included in "other current liabilities"	10	81
Notes receivable discounted	313	2,526

Also, the following receivable/payable balances, which originally fell due at the fiscal year-end, are included in the accompanying consolidated balance sheets as of March 31, 2001, because those balances are settled in the same way as for notes receivable/payable.

	Millions of Yen	Thousands of U.S. Dollars
Accounts receivable—trade	¥2,969	$23,963
Accounts payable—trade	5,353	43,204
Accounts payable—other	2,078	16,772

4. UNITED STATES DOLLAR AMOUNTS

The consolidated financial statements are prepared in Japanese yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥123.90=U.S.$1, the approximate exchange rate at March 31, 2001. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts can be converted into dollars at ¥123.90=U.S.$1 or at any other rate.

5. SECURITIES

a) Amount of available-for-sale securities sold in fiscal 2001.

	Millions of Yen	Thousands of U.S. Dollars
Amount sold	¥17,318	$139,774
Realized gain	12,335	99,556
Realized loss	134	1,081

The above figures do not include gain from contribution to pension fund.

b) Details of investments in securities without market quotation:

	March 31, 2001	
Description	Millions of Yen	Thousands of U.S. Dollars
Held-to-maturity debt securities:		
Commercial paper	¥1,999	$16,134
Available-for-sale securities:		
Unlisted shares (excluding OTC shares)	6,241	50,371
Other securities	1,007	8,128

Amounts shown in the above table are book value. For market value information see Note 2.

c) Maturity schedule of debt securities with scheduled maturity:

	Millions of Yen	
	Bonds* 1	Other securities
Less than one year	¥1,999	¥ 2
More than one year less than five years	—	25
More than five years less than ten years	—	—
Thereafter	—	—

	Thousands of U.S. Dollars	
	Bonds* 1	Other securities
Less than one year	$16,134	$ 16
More than one year less than five years	—	202
More than five years less than ten years	—	—
Thereafter	—	—

**1 The bonds represent those other than Japanese government bond and other municipal bonds because the Companies have no investments in such debt securities.*
Note: No comparative figures are prepared, due to the accounting change having taken place from this fiscal year.

d) Assets pledged as collateral, and relevant debt:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Investments in securities	**¥114**	¥ 97	**$ 920**
Machinery and equipment	**—**	166	**—**
Accounts and notes payable—trade	**338**	247	**2,728**
Short-term debt	**—**	18	**—**

e) Investments in unconsolidated subsidiaries and affiliates:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Investments in shares	**¥17,037**	¥15,495	**$137,506**
Participations	**1,046**	1,046	**8,442**

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt consists principally of bank overdrafts bearing interest of 1.97% and 1.59%, weighted average interest rate on outstanding balances as at March 31, 2001 and 2000, respectively.

Short-term debt as at March 31, 2001 and 2000, is summarized as follows:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Short-term bank loans	**¥42,152**	¥42,876	**$340,210**
Current portion of long-term debt	**448**	2,740	**3,616**
	¥42,600	¥45,616	**$343,826**

Long-term debt as at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Loans from banks, other financial institutions, etc., due from 2001 to 2013 with mortgage and collateral (Note 2)	**¥ 2,475**	¥ 4,997	**$ 19,977**
1.50 per cent. convertible bond due 2002 (Note 3)	**9,997**	9,997	**80,686**
1.75 per cent. bond due 2003 (Note 4)	**—**	12,000	**—**
2.55 per cent. bond due 2008	**15,000**	15,000	**121,065**
2.525 per cent. bond due 2008	**15,000**	15,000	**121,065**
1.98 per cent. bond due 2008	**3,000**	3,000	**24,213**
	45,472	59,994	**367,006**
Less: portion due within one year	**(448)**	(2,740)	**(3,616)**
	¥45,024	¥57,254	**$363,390**

Notes: 1. All bonds shown above are unsecured.
2. The interest rate on long-term loans (excluding current portion) from banks was 7.48%, the weighted average interest rate on outstandinng balances at the year-end.
3. Holders of the bond are entitled to convert the bond into common stock at a price of ¥1,880 during the period from March 1, 1990 to June 27, 2002, subject to adjustment in certain circumstances.
4. The bond was accounted for as redeemed due to a debt assumption contract. The debt assumption contract requires a counterparty to assume obligations of paying principal and interests on bond. See Note 12 for underlying obligations of the Company.

Annual maturities of bonds and convertible bond are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ —	$ —
More than one year less than two years	9,997	80,686
More than two years less than three years	—	—
More than three years less than four years	—	—
More than four years less than five years	—	—
More than five years	33,000	266,343
	¥42,997	$347,029

Annual maturities of long-term debt, except for bonds and convertible bond, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 448	$ 3,616
More than one year less than two years	480	3,874
More than two years less than three years	593	4,786
More than three years less than four years	672	5,424
More than four years less than five years	229	1,848
More than five years	53	429
	¥2,475	$19,977

7. LEASE TRANSACTIONS

(1) Finance Leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to the lessee, as of, and for the year ended March 31, 2001 and 2000 are as follows.

The acquisition cost, accumulated depreciation and, net book value at March 31, 2001 and 2000, of leased assets, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Acquisition cost	**¥2,878**	¥3,278	**$23,229**
Accumulated depreciation	**1,627**	1,955	**13,132**
Net book value	**¥1,251**	¥1,323	**$10,097**

Lease payments and depreciation for the years ended March 31, 2001 and 2000, amounted to ¥609 million ($4,915 thousand) and ¥706 million, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥ 496**	¥ 525	**$ 4,003**
Due over one year	**755**	798	**6,094**
	¥1,251	¥1,323	**$10,097**

(2) Operating Leases

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥2**	¥2	**$16**
Due over one year	**3**	6	**24**
	¥5	¥8	**$40**

8. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2001 and 2000, are as follows:

	March 31, 2001	
	Millions of Yen	Thousands of U.S. Dollars (Note 4)
Deferred tax assets:		
Non-deductible portion of reserve for bonuses	¥ 736	$ 5,940
Enterprise taxes payable.	1,034	8,345
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	961	7,756
Non-deductible portion of reserve for retirement benefits to employees	4,798	38,725
Reserve for retirement benefits to directors and corporate auditors	393	3,172
Non-deductible portion of amortization of deferred charges	656	5,295
Tax loss carried forward	2,465	19,895
Loss on write-down of investments in securities	722	5,827
Prepaid expense in tax accounting	682	5,504
Non-deductible portion of depreciation of property, plant and equipment	830	6,699
Loss on write-down of golf membership	403	3,253
Others	2,319	18,717
Sub-total	¥15,999	$129,128
Valuation allowance	(2,900)	(23,406)
Total deferred tax assets	¥13,099	$105,722
Deferred tax liabilities:		
Deferred gain, mainly related to expropriation of fixed assets	¥ (1,928)	$ (15,561)
Special depreciation property, plant and equipment held by an overseas subsidiary	(2,221)	(17,926)
Others	(419)	(3,381)
Total deferred tax liabilities	¥ (4,568)	$ (36,868)
Deferred tax assets, net	¥ 8,531	$ 68,854

Note: Classification of “Deferred tax assets, net” on the consolidated balance sheet as of March 31, 2001 is as follows:

Balance sheet item		Millions of Yen	Thousands of U.S. Dollars
Current assets	Deferred tax assets	¥3,996	$32,252
Non-current assets	Deferred tax assets	5,085	41,041
Non-current liabilities	Deferred tax liabilities	(550)	(4,439)
		¥8,531	$68,854

	March 31, 2000
	Millions of Yen
Deferred tax assets:	
Non-deductible portion of allowance for doubtful accounts	¥ 360
Non-deductible portion of reserve for bonuses	506
Enterprise taxes payable.	671
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	796
Non-deductible portion of reserve for retirement benefits to employees	1,304
Reserve for retirement benefits to directors and corporate auditors	408
Non-deductible portion of amortization of deferred charges	1,068
Tax loss carried forward	978
Loss on write-down of investments in securities	889
Prepaid expense in tax accounting	666
Others	2,341
Sub-total	¥ 9,987
Valuation allowance	(1,761)
Total deferred tax assets	¥ 8,226
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥(2,121)
Others	(80)
Total deferred tax liabilities	¥(2,201)
Deferred tax assets, net	¥ 6,025

Reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2001 and 2000, are as follows:

	March 31	
	2001	2000
Statutory tax rate	**41.69%**	41.69%
Permanent differences:		
Non-deductible expenses such as entertainment expenses	**8.85**	9.31
Non-taxable income such as dividend income	**(1.83)**	(3.07)
Future tax benefits deemed not to be realized	**13.71**	5.98
Equity in earnings of affiliates	**(3.68)**	(3.31)
Others	**(0.50)**	0.30
Effective tax rate	**58.24%**	50.90%

9. RESERVE FOR RETIREMENT BENEFITS TO EMPLOYEES

The Company and its domestic consolidated subsidiaries operate various defined benefit plans, such as a contributory pension plan, a qualified pension plan and a severance payment plan.

a) The reserve for retirement benefits as of March 31, 2001 is analyzed as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligations	¥(108,845)	$(878,491)
Plan assets	73,493	593,164
Unfunded benefit obligations	(35,352)	(285,327)
Unrecognized actuarial differences	18,103	146,110
	¥ (17,249)	$(139,217)

Notes: 1. The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.
2. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under the standard.
3. No comparative figures are prepared, due to the accounting change having taken place from this fiscal year.

b) The net periodic pension expense related to the retirement benefits for fiscal 2001 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost (Notes 1 and 2)	¥ 4,190	$ 33,818
Interest cost	3,592	28,991
Expected return on plan assets	(2,580)	(20,823)
Amortization of transition adjustment	24,729	199,588
	¥29,931	$241,574

Notes: 1. Excludes employee's contributions made to the contributory pension plan operated by the Company.
2. Includes net periodic pension expense incurred by the subsidiaries which apply the simple method (above Note 2 of a)).
3. No comparative figures are prepared, due to the accounting change having taken place from this fiscal year.

c) Assumptions used in calculation of the above information are as follows:

	As of March 31, 2001
Method of attributing the projected benefits to periods of services	Benefit/year of service approach
Disount rate	3.50%
Expected rate of return	Plan assets: 4.00% Pension trust fund: 0.32%
Amortization of actuarial differences	Amortization will be made on a straight-line basis over the period of ten years from the year after they occur. See Note 2
Amortization of transition adjustments	Fully expensed in this fiscal year

10. DERIVATIVE TRANSACTIONS

(1) Conditions of derivative financial instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign currency swap, foreign exchange contract, and interest rate swap and cap agreements.

All such instruments involve risk, including the credit risk of non-performance by counterparties. However, at March 31, 2001, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counterparties on these financial instruments, because all counterparties were major financial institutions and securities companies with a high credit rating. Also, the Companies do not use derivative financial statements for highly leveraged transactions.

(2) Fair value information of derivative financial instruments

Under the Japanese Regulation for Consolidated Financial Statements, fair value information is not required about outstanding derivative financial instruments which are assigned to monetary rights and obligations under the new Japanese accounting standard for foreign currency translation. All outstanding derivative financial instruments have been assigned by the Companies. Therefore, no items was required to be disclosed in this section as of March 31, 2001.

No comparative information is prepared, due to the accounting change having taken place from this fiscal year.

11. SUPPLEMENTARY STATEMENTS OF INCOME

The major elements of selling, general and administrative expenses for each of the three years in the period ended March 31, 2001 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	**2001**
Research and development expenses	**¥28,344**	¥25,011	¥23,314	**$228,765**
Salaries	**18,201**	18,077	17,750	**146,901**
Sales promotion	**9,950**	10,508	11,831	**80,307**
Bonuses to employees	**7,720**	8,161	7,898	**62,308**

12. CONTINGENT LIABILITIES

(1) The Companies had contingent liabilities arising from notes discounted by banks in the amount of ¥1,543 million ($12,454 thousand) at March 31, 2001.

The Company was contingently liable for guarantees of loans borrowed by Sakura-Brewer Ltd., Issyou-Brewer Ltd., Sanbo-Brewer Ltd. and others in the amounts of ¥680 million ($5,488 thousand), ¥600 million ($4,843 thousand), ¥505 million ($4,076 thousand) and ¥596 million ($4,810 thousand), respectively, at March 31, 2001.

(2) Contingent liabilities under a debt assumption agreement were to totaled ¥12,000 million ($96,852 thousand).

(3) On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within EEA (European Economic Area) prior to June, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of fine. The final amount of the fine has not yet been determined. In the consolidated balance sheets, 1,120 thousand Euro (¥122 million; $988 thousand) was recognized under "accounts payable" based on the calculation method of the fine which the European Commission had previously adopted.

13. RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related companies, representing more than 10 per cent. of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31, 2001 and 2000 are disclosed by each item.

Also, the Company discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the foot note, represent more than 1 per cent. of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31, 2001 and 2000.

Material transactions and balances of the Company with its related individuals, including shareholders and directors, representing more than ¥1 million shall be disclosed, but are not applicable for the years ended March 31, 2001 and 2000.

				Millions of Yen						Thousands of U.S. Dollars	
				Transactions			Resulting account balances				
					Year ended March 31,						
Name of related company	Paid-in capital (Millions of yen)	Principal business	Direct equity ownership percentage by the Company	Description of transactions	**2001**	2000	Account	**At Mar. 31, 2001**	At Mar. 31, 2000	**Transactions initiated in the year ended Mar. 31, 2001**	**Resulting account balance at Mar. 31, 2001**
Janssen-Kyowa Co., Ltd.	¥1,000	Development, process, import and wholesale of pharmaceuticals	40%	Purchase of pharmaceuticals	**¥20,702**	¥16,159	Accounts and notes payable	**¥6,757**	¥7,892	**$167,086**	**$54,536**

14. SEGMENT INFORMATION

(1) Industry Segment Information

The Companies operate principally in the following 5 industry segments:

Industry segments:	Major products:
Pharmaceuticals Division	Ethical drugs and diagnostic reagents
Bio-Chemicals Division	Bulk pharmaceuticals, animal health products and agrochemicals
Chemicals Division	Solvents, plasticizers and their raw materials, detergent raw materials and specialty chemicals
Liquor and Food Division	Alcoholic beverages, alcohol, seasonings, confectionery and baking ingredients and processed foods
Other Division	Transportation, warehouse and sales of apparatus for industry

	Millions of Yen							
	Industry segment						Corporate,	
Year ended March 31, 2001	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total	elimination and other	Consolidated total
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥138,928	¥46,920	¥56,224	¥ 98,718	¥34,820	¥375,610	¥ —	¥375,610
Inter-segment sales/transfers	2,522	5,800	4,435	4,635	22,807	40,199	(40,199)	—
Total sales	141,450	52,720	60,659	103,353	57,627	415,809	(40,199)	375,610
Operating expenses	121,876	53,911	63,343	102,434	56,486	398,050	(40,152)	357,898
Operating income (loss)	¥ 19,574	¥ (1,191)	¥ (2,684)	¥ 919	¥ 1,141	¥ 17,759	¥ (47)	¥ 17,712
II. Assets, Depreciation and Capital Expenditures:								
Assets	¥123,365	¥83,763	¥67,573	¥ 74,578	¥20,257	¥369,536	¥ 61,875	¥431,411
Depreciation	5,258	4,915	4,842	2,584	153	17,752	750	18,502
Capital expenditures	4,399	4,102	4,228	3,786	154	16,669	423	17,092

	Thousands of U.S. Dollars							
	Industry segment						Corporate,	
Year ended March 31, 2001	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total	elimination and other	Consolidated total
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	$1,121,291	$378,692	$453,785	$796,755	$281,035	$3,031,558	$ —	$3,031,558
Inter-segment sales/transfers	20,355	46,812	35,795	37,409	184,076	324,447	(324,447)	—
Total sales	1,141,646	425,504	489,580	834,164	465,111	3,356,005	(324,447)	3,031,558
Operating expenses	983,664	435,117	511,243	826,747	455,901	3,212,672	(324,068)	2,888,604
Operating income (loss)	$ 157,982	$ (9,613)	$ (21,663)	$ 7,417	$ 9,210	$ 143,333	$ (379)	$ 142,954
II. Assets, Depreciation and Capital Expenditures:								
Assets	$ 995,682	$676,053	$545,383	$601,921	$163,495	$2,982,534	$ 499,395	$3,481,929
Depreciation	42,437	39,669	39,080	20,856	1,235	143,277	6,053	149,330
Capital expenditures	35,504	33,107	34,124	30,557	1,244	134,536	3,414	137,950

Year ended March 31, 2000	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥139,994	¥41,689	¥59,736	¥101,423	¥32,068	¥374,910	¥ —	¥374,910
Inter-segment sales/transfers	2,344	5,968	4,157	4,897	23,098	40,464	(40,464)	—
Total sales	142,338	47,657	63,893	106,320	55,166	415,374	(40,464)	374,910
Operating expenses	118,539	49,753	64,957	107,430	53,776	394,455	(41,201)	353,254
Operating income (loss)	¥ 23,799	¥ (2,096)	¥ (1,064)	¥ (1,110)	¥ 1,390	¥ 20,919	¥ 737	¥ 21,656
II. Assets, Depreciation and Capital Expenditures:								
Assets	¥125,006	¥91,858	¥65,961	¥ 72,530	¥15,452	¥370,807	¥ 63,151	¥433,958
Depreciation	5,511	4,973	4,903	2,876	324	18,587	566	19,153
Capital expenditures	4,902	7,127	4,259	4,338	118	20,744	309	21,053

Year ended March 31, 1999	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥140,458	¥47,971	¥61,915	¥103,049	¥31,278	¥384,671	¥ —	¥384,671
Inter-segment sales/transfers	2,758	5,646	4,444	4,379	23,052	40,279	(40,279)	—
Total sales	143,216	53,617	66,359	107,428	54,330	424,950	(40,279)	384,671
Operating expenses	117,598	50,982	70,623	109,858	52,611	401,672	(40,458)	361,214
Operating income (loss)	¥ 25,618	¥ 2,635	¥ (4,264)	¥ (2,430)	¥ 1,719	¥ 23,278	¥179	¥ 23,457
II. Assets, Depreciation and Capital Expenditures:								
Assets	¥126,639	¥90,425	¥68,748	¥ 73,821	¥18,310	¥377,943	¥ 99,786	¥477,729
Depreciation	4,357	4,217	4,741	3,497	347	17,159	514	17,673
Capital expenditures	4,755	10,237	5,056	3,512	138	23,698	710	24,408

(2) Geographic Segment Information

Geographic segment information is omitted because over 90 percent. of total sales and total assets relate to only the domestic segment.

(3) Overseas Sales

The classification of overseas sales is as follows:

Classification	Area
(1) Americas	North America, Latin America
(2) Europe	Whole Europe
(3) Asia	Whole Asia
(4) Other areas	Oceania, Africa

Year ended March 31, 2001	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**¥22,092**	**¥13,218**	**¥16,538**	**¥687**	**¥ 52,535**
II. Consolidated net sales					**375,610**
III. Ratio of overseas sales to the consolidated net sales	**5.9%**	**3.5%**	**4.4%**	**0.2%**	**14.0%**

Year ended March 31, 2001	Thousands of U.S. Dollars				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**$178,305**	**$106,683**	**$133,479**	**$5,544**	**$ 424,011**
II. Consolidated net sales					**3,031,558**
III. Ratio of overseas sales to the consolidated net sales	**5.9%**	**3.5%**	**4.4%**	**0.2%**	**14.0%**

Year ended March 31, 2000	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥19,401	¥9,840	¥18,177	¥426	¥ 47,844
II. Consolidated net sales					374,910
III. Ratio of overseas sales to the consolidated net sales	5.2%	2.6%	4.8%	0.2%	12.8%

Year ended March 31, 1999	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥19,862	¥14,022	¥16,269	¥874	¥ 51,027
II. Consolidated net sales					384,671
III. Ratio of overseas sales to the consolidated net sales	5.2%	3.6%	4.2%	0.2%	13.3%

Note: Overseas sales are sales by the Companies to customers outside of Japan.

15. SUBSEQUENT EVENT

Subsequent to March 31, 2001, the Company's Board of Directors, with the subsequent approval by shareholders on June 28, 2001, declared a cash dividend of ¥1,628 million ($13,140 thousand), equal to ¥3.75 ($0.03) per share, which was applicable to earnings of the year ended March 31, 2001 and payable to shareholders on the register on March 31, 2001.

Report of Independent Accountants

To the Board of Directors
KYOWA HAKKO KOGYO CO., LTD.

We have audited the accompanying consolidated balance sheets of KYOWA HAKKO KOGYO CO., LTD and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and shareholders' equity for three years ended March 31, 2001 and cash flows for two years ended March 31, 2001, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KYOWA HAKKO KOGYO CO., LTD and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations for three years ended March 31, 2001 and their cash flows for two years ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) and applied on a consistent basis.

As described in Note 2, effective from the year ended March 31, 2001, KYOWA HAKKO KOGYO CO., LTD and its domestic consolidated subsidiaries have adopted the new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Tokyo, Japan
June 28, 2001

ChuoAoyama Audit Corporation

Principal Subsidiaries and Affiliates

(As of June 28, 2001)

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
SUBSIDIARIES			
Domestic			
Kyowa Yuka Co., Ltd.	94.0%	¥5,300	Manufacture and sale of chemicals
Kyowa Medex Co., Ltd.	100.0	750	Manufacture and sale of diagnostic reagents
Mohan Medicine Research Institute	98.9	2,223	Manufacture and sale of pharmaceuticals
Shinwa Pharmaceutical Co., Ltd.	100.0	95	Manufacture and sale of herbal medicines
Kyowa Medical Promotion Co., Ltd.	100.0	50	Advertising and sales promotion of pharmaceuticals
Kyowa Nozai Co., Ltd.	100.0	40	Manufacture and sale of fertilizers and agricultural materials as well as landscaping and greenery businesses
Sainte Neige Wine Co., Ltd.	95.2	125	Manufacture of liquors
Toyama Co., Ltd.	98.1	50	Wholesale of liquors and foods
Riken Kagaku Co., Ltd.	100.0	30	Manufacture and sale of pharmaceuticals and chemicals
Kyowa F.D. Foods Co., Ltd.	100.0	100	Manufacture and sale of foods
Ohland Foods Co., Ltd.	100.0	50	Manufacture of foods
Kyowa Hifoods Co., Ltd.	100.0	60	Manufacture, importation, and sale of foods and household goods
Asahi Foods Products Co., Ltd.	78.0	36	Manufacture and sale of foods
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.	100.0	50	Wholesale of foods
Miyako Kagaku Co., Ltd.	52.9	111	Sale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.	100.0	113	Transportation and trading
Kyowa Engineering Co., Ltd.	100.0	70	Design and installation of equipment and facilities and sale of health foods
Kyowa Warehouse & Transportation Co., Ltd.	100.0	70	Warehousing and transportation
Seifu Co., Ltd.	100.0	40	Office building administration
Overseas			
Biokyowa Inc. (U.S.A.)	100.0	$20	Manufacture and sale of feed additives
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	100.0	N.Peso31	Manufacture and sale of feed additives
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	100.0	HuF3,506	Manufacture and sale of feed additives
Kyowa Foods Inc. (U.S.A.)	100.0	$20	Manufacture and sale of nucleotide seasonings
Kyowa Hakko U.S.A., Inc. (U.S.A.)	100.0	$1	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Hakko Europe GmbH (Germany)	100.0	DM2	Sale of pharmaceuticals, food additives, and chemicals
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)	100.0	HK$1	Sale of pharmaceuticals, feed additives, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)	100.0	LIT1,355	Sale of pharmaceuticals, feed additives, and chemicals
Kyowa Foods (H.K.) Co., Ltd.	100.0	HK$2	Sale of foods
Kyowa America, Inc. (U.S.A.)	100.0	$48	Coordination and monitoring of subsidiaries in the United States
DOMESTIC AFFILIATES			
Janssen-Kyowa Co., Ltd.	40.0	¥1,000	Development, manufacture, and sale of pharmaceuticals
Aji-Nihon Co., Ltd.	46.3	95	Manufacture of foods and seasonings
Japan Synthetic Alcohol Co., Ltd.	33.3	480	Manufacture and marketing of various types of alcohol
Musashino Chemical Laboratory, Ltd.	25.0	238	Manufacture and marketing of organic synthetic chemicals
Kurogane Kasei Co., Ltd.	40.0	90	Manufacture of chemicals
J-PLUS Co., Ltd.	50.0	480	Manufacture and sale of petrochemicals
Zenmi Foods Inc.	50.0	190	Manufacture and sale of foods

Overseas Network

(As of June 28, 2001)

AMERICAS

Kyowa America, Inc.
599 Lexington Avenue, Suite 4103,
New York, NY 10022, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283

Biokyowa Inc.
Head Office & Plant
5469 Nash Road, P.O. Box 1550,
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TEL: 1-573-335-4849
FAX: 1-573-335-1466

St. Louis Office
1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-636-532-4070
FAX: 1-636-532-1710

Kyowa Hakko U.S.A., Inc.
599 Lexington Avenue, Suite 4103,
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TEL: 1-212-319-5353
FAX: 1-212-421-1283

West Coast Office
85 Enterprise, Suite 430,
Aliso Viejo, CA 92656, U.S.A.
TEL: 1-949-425-0707
FAX: 1-949-425-0708

Kyowa Foods Inc.
5469 Nash Road, P.O. Box 1460,
Cape Girardeau, MO 63702-1460, U.S.A.
TEL: 1-573-332-1095
FAX: 1-573-332-1092

Nutri-Quest, Inc.
1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-636-537-4057
FAX: 1-636-532-1710

Kyowa Pharmaceutical, Inc.
104 Carnegie Center, Suite 301,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-919-1100
FAX: 1-609-919-1111

Fermentaciones Mexicanas, S.A. de C.V. (Fermex)
Head Office
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

Orizaba Plant
Domicilio Conocido, Potrerillo,
Ixtaczoquitlan 94453, Veracruz, Mexico
TEL: 52-272-1-0554
FAX: 52-272-1-0090

Kyowa Hakko Kogyo Co., Ltd.
Oficina Informativa en Mexico
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

EUROPE

Kyowa Hakko Europe GmbH
Immermannstrasse-3,
D-40210, Düsseldorf, Germany
TEL: 49-211-17-728-0
FAX: 49-211-17-728-41

Kyowa Hakko U.K. Ltd.
258 Bath Road, Slough,
Berkshire SL1 4DX, United Kingdom
TEL: 44-1753-566000
FAX: 44-1753-566010

Kyowa Italiana Farmaceutici S.R.L.
Viale Fulvio Testi 280, 20126, Milano, Italy
TEL: 39-02-644-704-1
FAX: 39-02-644-704-44

Kyowa Hakko Kogyo Co., Ltd.
Hungary Direct Commercial Representative Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Agroferm)
Budapest Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Kaba Plant
H-4183 Kaba, Nádudvari útfél, Hungary
TEL: 36-54-480-560
FAX: 36-54-480-528

ASIA

Kyowa Hakko Industry (Singapore) Pte Ltd.
260 Orchard Road, #12-04,
The Heeren, Singapore 238855
TEL: 65-733-4948
FAX: 65-733-0819

Kyowa Hakko (Thailand) Ltd.
101/11 Srinakarintra Road,
Suanluang Praves, Bangkok 10250, Thailand
TEL: 66-2-321-9387
FAX: 66-2-321-9389

Kyowa Hakko (Malaysia) SDN BHD.
20, Jalan SS 19/5, 47500 Subang Jaya,
Selangor, Darul Ehsan, Malaysia
TEL: 60-3-7340669, 7340671
FAX: 60-3-7340990

Kyowa Hakko Kogyo Co., Ltd.
Beijing Representative Office
100004, Beijing Fortune Bldg., Room 609,
No. 5, Dong San Huan Bei Lu,
Chao Yang District, Beijing,
People's Republic of China
TEL: 86-10-6590-8515
FAX: 86-10-6590-8517

Kyowa Hakko Kogyo Co., Ltd.
Shanghai Representative Office
1376 Nanjing Road West, Room 704,
Shanghai 200040, People's Republic of China
TEL: 86-21-6279-8310
FAX: 86-21-6279-8320

Kyowa Hakko (H.K.) Co., Ltd.
Room 2103, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong
TEL: 852-2895-6795
FAX: 852-2576-6142, 2576-6191

Guangzhou Representative Office
Room 411, China Hotel Office Tower,
Liu Hua Road, Guangzhou 510015,
People's Republic of China
TEL: 86-20-8667-5381
FAX: 86-20-8667-5472

Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd.
621 Yun Ling Donglu, Shanghai 200062,
People's Republic of China
TEL: 86-21-5280-1270
FAX: 86-21-5280-3162

Kyowa Foods (H.K.) Co., Ltd.
Room 2102, Hang Lung Centre 2-20,
Paterson Street, Causeway Bay,
Hong Kong
TEL: 852-2576-4113
FAX: 852-2576-6191

Wuxi Xiehe Food Co., Ltd.
No. 158 Xu Xiang Lane, Li Yuan,
Wuxi 214072, People's Republic of China
TEL: 86-51-0512-9781
FAX: 86-51-0510-9484

Principal Products

PHARMACEUTICALS

ANTIBIOTICS
Pasetocin®, Acetylspiramycin, Fortimicin®, Sagamicin®, Minostacin

ANTICANCER AGENTS
Mytomycin, 5-FU, Leunase®, Adriacin®, Hysron® H-200, Dacarbazine, Farmorubicin®, Platosin®, Navelbine®

CENTRAL NERVOUS SYSTEM AGENTS
Depakene®, EC-Doparl, Doparl®, Benozil®, Neoperidol®

CARDIOVASCULAR AGENTS
Meditrans®nitro, Inovan®, Apiracohl®, Activacin®, Coniel®, Neucul®, Pre Dopa®

CONTRAST MEDIUM
Imagenil®

GASTROINTESTINAL AGENTS
Nauzelin®, Glumin®, Glumal®, Navoban®

ANTIALLERGIC AGENTS
Celtect®, Allelock

HORMONES
Desmopressin, Hysron®

IMMUNOSUPPRESSIVE AGENT
Orthoclone OKT® 3

VITAMINS
FAD, Cobamyde®, Vitaroxin®

OTHER METABOLIC AGENTS
Gludiase®, ATP Kyowa, Atomolan®

AGENTS FOR BLOOD AND FLUID DISORDERS
Neu-up®, Emeradole®, Leukoprol®

OINTMENTS
Propaderm®, Tolmicen®, Nizoral®

ANTHELMINTIC AGENT
Mebendazole

ANTIMYCOLOGICAL AGENT
Itrizole®

DIAGNOSTIC MEDICAL DEVICES
Clinical Chemistry Diagnostic Reagents (Determiner® series), Immunological Diagnostic Reagents (Extel® series, Chemilumi series), Monoclonal Antibodies, Inhibitors (MX series), Full Auto Micro Plate EIA Analyzer (AP series), Fecal Occult Blood Test Analyzer (HM-JACK®), Diabetes Mellitus Test Analyzer (DM-JACK®)

BIO-CHEMICALS

AGROCHEMICALS
Plant growth regulators (Gibberellin, Fulmet®)

ANIMAL HEALTH PRODUCTS
Spiramix, Nanaomycin, Polyup®, Atomolate®, Spiramycin for pisciculture, Fantacin® for pisciculture, Ampicirin for pisciculture

FEED ADDITIVES
L-Lysine HCl, L-Tryptophan, L-Threonine, Driselase®, Phytase

FEEDS FOR FISH AND ANIMALS
Evian® Kyowa, Fry Feed Kyowa, Aminoplus®

FINE CHEMICALS FOR PHARMACEUTICAL USE
Amino acids (L-Alanine, L-Arginine, L-Histidine, L-Isoleucine, L-Ornithine, L-Aspartate, L-Proline, L-Serine, L-Threonine, L-Valine, etc.), Nucleic Acids (ATP, Orotic Acid, etc.), L-Malic Acid, Enzymes, Pharmaceutical intermediates, Sodium hyaluronate

BULK PHARMACEUTICALS
Citicoline, Dacarbazine, Minocycline HCl, Spiramycin, Ubidecarenone (CoQ10)

PET CARE PRODUCTS
Elendaite®, E&D shampoo and rinse, Green Mussel E, Agari Pet

CHEMICALS

SOLVENTS
Butyl Alcohol, Acetone, Butyl Glycol Ether, Ethyl Acetate, Butyl Acetate

PLASTICIZERS AND THEIR RAW MATERIALS
DOP (Di-2-Ethylhexyl Phthalate), DBP (Dibutyl Phthalate), DINP (Di-Isononyl Phthalate), DIDP (Di-Isodecyl Phthalate) 2-Ethylhexyl Alcohol, Oxocol®-900 (Isononyl Alcohol)

ORGANIC ACIDS
Acetic Acid, 2-Ethyl Hexanoic Acid, Isononanoic Acid

DIOLS
1-3 Butylene Glycol, 2,4-Di-Ethyl-1,5 Pentanediol, Butyl Ethyl Propanediol

DETERGENT RAW MATERIALS
Linear Alkyl Benzene (Nalken®)

LIQUOR AND FOOD

LIQUOR AND ALCOHOL

ORIGINAL PRODUCTS

Shochu (Japanese traditional spirits)
Daigoro, Kanoka, Sun, Genkai, Buson

St. Neige Wine
Class d'Or, Grande, Sulfite-free organic wines, Budou-Batake series

Low-Alcohol Refreshers
Shitamachi Fumi, SunShower, Cocktail Partner

Plum Liqueurs
Umesh Kazoku, Kyowa Umesh

IMPORTS

Scotch Whisky
Langs, Glengoyne

Still Wine
Lionel J. Bruck, Paul Faugerois, Terramater, Kendermann, Renzo Masi, Arcadia

Sparkling Wine
Canard-Duchêne (champagne), Dona, Lacrima Baccus (cava)

FOOD

UMAMI SEASONINGS
MSG (Monosodium glutamate), IMP (Sodium 5'-inosinate), GMP (Sodium 5'-guanylate)

NATURAL SEASONINGS
Hydrolyzed vegetable and animal proteins; Animal, vegetable, fish, shellfish, and yeast extracts; Soup stocks

BAKERY INGREDIENTS AND PRODUCTS
Baker's yeast, Prepared mixes, Baking improvers, Activated gluten

HEALTH FOODS
Vitamins, Minerals, Carotenoids, Probiotics, Peptides

FREEZE-DRIED FOODS
Instant egg-drop soup, Various food materials

Directors and Officers

(As of June 28, 2001)

BOARD OF DIRECTORS

President and Chief Executive Officer
Tadashi Hirata [1, 2]

Vice President and Chief Financial Officer
Arimasa Toi [1, 2]

Senior Managing Directors
Hiroshi Shigeta [2]
Ayao Kikuchi [2]
Company President, Chemicals Company
Hiroshi Hosoda [2]
Company President, Food Company
Toru Doiuchi [2]
Company President, Pharmaceuticals Company

Managing Directors
Yoshito Imai [2]
Sadao Teshiba [2]

Directors
Toyokatsu Munakata [2]
Tomonori Yuji [2]

Corporate Auditors
Takeshi Asaoka
Yoshio Ogura
Kozo Fukuya
Kozo Fujita

[1] Representative Director
[2] Also serving as Executive Officer

EXECUTIVE OFFICERS

Senior Executive Officers
Minoru Sakurai
Company President, Bio-Chemicals Company
Kiyoji Hattori
Naoyuki Sorimachi
Company President, Liquor and Alcohol Company
Seiga Itoh
Fumio Suzuki

Executive Officers
Susumu Okusa
Kyozo Tsuchiya
Tadayasu Furukawa
Noriyuki Hina
Shinzo Ishii
Hiroyuki Kuniyasu
Yuzuru Matsuda
Shin Kawahara
Kazuhiko Yamanoe
Toshifumi Asada
Nobuo Kanda

Corporate Data

(As of March 31, 2001)

KYOWA HAKKO KOGYO CO., LTD.

Head Office

1-6-1, Otemachi, Chiyoda-ku,
Tokyo 100-8185, Japan
TEL: 81-3-3282-0007
FAX: 81-3-3284-1968
URL: http://www.kyowa.co.jp

Number of Employees

7,766 [Parent Company: 4,809]

Date of Foundation

July 1, 1949

Paid-in Capital

¥26,745 million

Principal Plants

Domestic

Hofu, Ube, Sakai, Fuji, Tsuchiura, Moji,
Kyowa Yuka (Yokkaichi, Chiba), Kyowa Medex (Fuji)

Overseas

Biokyowa (U.S.A.), Fermex (Mexico),
Agroferm (Hungary), Kyowa Foods (U.S.A.)

Principal Laboratories

Tokyo Research Laboratories
Pharmaceutical Research Institute
Technical Research Laboratories
Toxicological Research Laboratories
Sakai Research Laboratories
Foods & Liquors Research Laboratories
Tsukuba Research Laboratories
Aquaculture Research Laboratories
Kyowa Yuka Co., Ltd., Yokkaichi Research Laboratories
Kyowa Medex Co., Ltd., Research Laboratories

Printed on recycled paper

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